

Future Social Market Economy



Policy Brief # 2013/02

Green and fair economy – a holistic concept for a sustainable economy

Solution approaches based purely on economics do not lead to optimal success – at least, not in the medium to long term. Rather, a sustainable economy requires an equal consideration of the ecological and social dimensions. The *green economy* concept, or, better said, the *green and fair economy* concept, is in principle suitable for, if not avoiding an economic and financial crisis as experienced in the last five years, at least moderating its negative effects. The important thing here is to integrate the design of the concept as much as possible at the political, economic and individual level.

Focus

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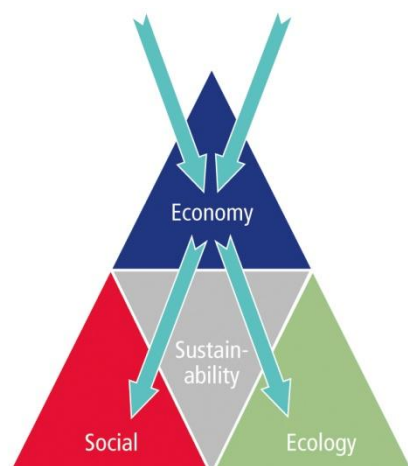
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A *green and fair economy* is a holistic concept for sustainable management. “Holistic” means that the social and ecological dimensions of economic development are always to be taken into account equally. Economic growth, in this regard, is (only) possible and meaningful if it can be described as socially and ecologically compatible in the medium and long term.

1. Global challenges

In our view, a society manages sustainably when it structures its economic system and social order such that "it ensures the long-term stability and performance of the ecological, sociopolitical and economic systems" (Petersen 2012, p. 2). In recent decades it has become increasingly difficult for national economies to reach this objective: growing state debt, bursting speculation bubbles with strong economic downturns, continuing global warming and an increasing use of natural resources are not an indication for sustainable management. In view of the forecast increase in the global population, from the current approximately seven billion to far beyond nine billion by 2050, sustainable management will in future become even more difficult to realize because, if a growing global population continues to use the earth's natural resources as in the past, these resources will soon be overused globally and the foundations of human life will ultimately be destroyed. Nevertheless, a growing global population can hardly dispense with economic growth because, otherwise, the provision of life-sustaining consumables to people cannot be ensured. And self-developed industrial nations such as Germany need growth to stabilize the social security systems and public finances as well as reduce distribution conflicts via a high level of employment.

Social and political stability are thus difficult to imagine at this time without an increase in economic performance – in particular in the developing and emerging countries, but also in the industrial countries. Economic growth will, however, only be sustainable if the social and ecological aspects are taken into account by all the relevant actors in the economy, state and society and integrated throughout, i.e. in

planning, negotiation and implementation processes. For finding a solution to target conflicts between countries, generations or even representatives of individual sustainability dimensions, it will be crucial to reach a basic consensus on core policy issues (e.g. through the participatory development of a sustainability strategy) and establishing suitable governance mechanisms (e.g. through regular sustainability reviews in the context of regional, national or supranational regulatory processes). Finally, the joint challenge is in maintaining or reaching a high level of economic activity with a high level of employment in Germany and other countries without burdening our natural resources to such an extent that subsequent generations inherit a plundered planet. Holistic approaches that aim for economic stability, and not at the cost of social or ecological sustainability, are therefore required.

The concept of a *green economy* has been on everyone's lips at the latest since the onset of the economic and financial crisis in 2007/2008. It is an expression of a profoundly felt dissatisfaction with the previous way of managing and generating growth. In the view of many, a "more of the same" approach can no longer be applied; a "short-term profit" way of thinking must be replaced by a "sustainable economy" way of thinking and acting. The concept of *green economy* is an approach that further smoothes the way to a sustainable development of the economy by the state and society and thus not least gives the resolutions of the United Nations Conference on Environment and Development held from June 3 to 14, 1992 in Rio new relevance and dynamic.

In this regard, it is also hardly surprising that an entire chapter is devoted to *green economy* in the United Nations report on the Rio+20 Conference held from June 20 to 22, 2012. Concretely, it states "[...] we

consider green economy in the context of sustainable development and poverty eradication as one of the important tools available for achieving sustainable development” (UN 2012, p. 10). *Green economy* is thus seen as an important “instrument” in achieving sustainable development and fighting poverty without destroying a functioning ecosystem.

A veritable flood of activity around the topic of *green economy* was unleashed before and after the Rio+20 Conference. Activities ranged from the development of “green” products and services to the adoption of local, regional, national and supra-national strategies (e.g. Europe 2020 of the European Commission) through to the discussions of joint objectives and indicators (e.g. the New Economic Paradigm Initiative of the United Nations; Sustainable Development Goals (SDGs)).

However, before concrete options for action at the political, economic and individual level can be considered more closely, we would like to first attempt to redefine the term *green economy* – as holistically as possible.

2. Green and fair economy – a better term

Green economy is a “glamorous” term. Depending on which perspective this term is considered from, other nuances become apparent (see Bundesministerium für Bildung und Forschung 2012): The Bundesverband der Deutschen Industrie (BDI) [Federation of German Industries] and the Deutscher Industrie- und Handelskammertag (DIHK) [Association of German Chambers of Industry and Commerce] emphasize the meaning of economic growth, whereas the Deutscher

Gewerkschaftsbund (DGB) [Confederation of German Trade Unions] and the Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA) [Confederation of German Employers] highlight the creation of new jobs. The NRW consumer organization points out that “green” management means not only “green” manufacturing but also “green” consumption. The Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit (BMU) [Federal Ministry for the Environment, Nature Conservation and Nuclear Safety] mentions in particular environment-related interim goals on the way to a *green economy* (e.g. avoiding harmful emissions and pollutant inputs). Despite the different terminological nuances, there is, however, a common core that is based on the following four points:

- a) *Green economy* is regarded as a strategy to implement sustainable development.
- b) *Green economy* represents the basis for sustainable economic growth (“green growth”).
- c) *Green economy* focuses on the interactions between the economic and ecological dimensions where the social dimension is not neglected but regarded as an essential element.
- d) *Green economy* is a concept that is not only relevant to the environmental sector, but requires change from all the actors in the economy and thus also requires a change in behavior of each individual.

In our view, the term “sustainability” always necessarily comprises the three aspects of “economic sustainability”, “ecological sustainability” and “social sustainability” where these three aspects are not regarded as isolated pillars but as an integrated whole. Consequently, if sustainability is considered primarily from an eco-

conomic perspective, the ecological and social dimensions must also always be considered – in an equal manner. In this regard, a holistic concept for sustainable management should not just be called *green economy* but, ideally *green and fair economy* (“green” representing the ecological dimension and “fair” the social dimension).

In order to flesh out the concept of a *green and fair economy*, various levels of action must be considered more closely. These levels are distinguished by various horizontal and vertical mutual relationships, which cannot be explained in further detail here. Broadly, the three levels of action “politics”, “economy” and “individual” can be differentiated.

3. Political level

The concrete actions of governments undoubtedly play a central role at the political level. Even in an increasingly globalized world, it is still primarily the governments that are able to set the essential framework conditions for a sustainable economic system. Through concrete, regulatory control mechanisms as well as strategic priority setting in key areas such as education, labor, health care, family, pensions, the environment or research and development, governments are well able to ensure that there are no inconsistencies between the development of social participation opportunities and the protection of ecological resources on the one hand, and the objective of economic profitability and competitiveness on the other hand, but that a mutually strengthening relationship comes into being.

In order to achieve this, it is, however, necessary for governments to act with a long-term perspective and coherently.

(Sustainability) strategies may not be inconsistent with international or supranational agreements that are likewise based on sustainable development and the objective of a *green and fair economy*. But sustainability can also only succeed domestically if focused actions are taken. Decisive for this is the availability of a higher level strategy and a high degree of political will as well as structures and processes that make it possible to implement the strategy. The greatest amount of participation in the realignment of politics, the economy and society to the goal of a *green and fair economy* is also required.

A sustainability strategy is of crucial significance in order to give direction and impetus to the development of a new economy. The mutual conditionality of the economic, ecological and social dimensions as well as the intergenerational nature of sustainability should be the basis of a strategy that includes clear objectives that are both ambitious and achievable.

A strategy on its own, however, remains merely on paper if there is no implementation and the political dynamic is not also retained through parliamentary terms. Ideally, there should be an institution responsible for the implementation of the strategy within the government system that has coordination authority as well as technical and methodological competence. The process itself should be secured with appropriate financial and personnel resources. In addition, the objectives of the sustainability strategy must be transferred to the political system so that coordination, convergence and coherence are achieved in all the existing country frameworks (horizontal and vertical). Processes that are not a direct part of the strategy process must likewise be aligned to the objectives of the sustainability strategy. This should, above all, also be evident in that sustainability objectives

are considered in the context of the budgeting process.

In the national framework, there is furthermore the consideration that "sustainability policies" are not easy to adopt and implement but that it is necessary to win the necessary trust and broad consensus of the affected social groups. Proactive consultations with citizens and stakeholders are of crucial importance for the long term sustainability of decisions that are made through democratic processes. Finally, governments should make efforts to entrench the model of *green and fair economy* in public discourse by means of a comprehensive communications policy, and in this way sensitize companies and consumers more towards sustainability objectives and the resulting behavior patterns. It is, after all, only when companies and consumers carry out the statutory framework conditions responsibly that there is a real chance of realizing the model of a *green and fair economy* in the long term.

4. Economic level

The economy plays a key role when it comes to achieving a *green and fair economy*. It must be noted that this concept is embedded as an element in the existing discussions on sustainability. Where companies were long seen as the problem on the way to sustainable social development, it is increasingly being recognized that the contributions made by companies by means of resource-efficient products and production processes, technological and social innovations as well as socially responsible and employee-focused actions are key resources on the way to greater sustainability. Companies then become part of the solution in that they integrate

the ecological and social aspects in their core business and consider them as factors for their long term competitiveness. Conflicting goals with a management concept solely oriented to the traditional growth paradigms remain because as long as turnover and profits are the only measures of success for owners, investors, banks, etc. any change in direction is fraught with high risk.

The debate around the economic, ecological and social responsibility of companies has been discussed for more than 10 years already. Since then, many companies have made great efforts in this area and document these appropriately in their sustainability reports. The guidelines of a civil society initiative, the Global Reporting Initiative (GRI), have become the benchmark for the reporting. In Germany, almost 90 percent of the DAX 30 companies now report according to this quasi-standard. This is remarkable, as, in a globally networked economy, new forms of framework setting evolve with the participation of the economy, politics and civil society. Another private economic initiative is currently provided by a framework for integrated reporting with which there are prospects that the still customary separation of financial reporting and sustainability reporting will be removed. If this succeeds, a paradigm change to a *green and fair economy* could be achieved.

However, politics at the national, European and international level have also placed greater emphasis on its obligation to act sustainably at the latest since the economic and financial crisis. The EU's strategy "Europe 2020 – Strategy for employment and intelligent, sustainable and integrated growth" therefore emphasizes the responsibilities of companies in particular. The Federal government's "National CSR Strategy" has also taken this

direction. The revision of the OECD Guidelines for Multinational Enterprises of 2011 had major significance here at the international level. Together with the UN's Guiding Principles on Business and Human Rights (2011) and the ILO's Core Labor Standards, the OECD Guidelines today form a broadly shared understanding of what is expected from companies when it comes to sustainability.

It is noteworthy that companies are also increasingly responding to the changed expectations and the impending loss of credibility with collective action. In the context of the Rio+20 Corporate Sustainability Forum, a number of platforms were launched that obligate companies to joint action ("Green Industry Platform", "Water Action Hub", "Sustainable Energy for All"). All these initiatives can contribute to the quicker and more effective dissemination of new green technologies and innovative approaches.

5. Individual level

At the individual level, the individual is stipulated as consumer, employee and citizen.

In the relationship between the state, companies and consumers, a joint responsibility for the realization of a *green and fair economy* is initially assumed. "Consumer decisions for sustainable products and services play a very important role but, on the other hand, must firstly be made possible through political framework conditions and decisive corporate action" (Omann, Ines/Bohunovsky, Lisa/Hinterberger, Friedrich et al. 2012, pp. 19 - 20).

Employees, in particular management, have the option of actively engaging with the sustainable actions of "their" companies (e.g. by participating in relevant guideline developments, winning partners from civil society or their own social involvement in voluntary programs).

As citizens, individuals can call for a *green and fair economy* in democratic ways - and set the following "mechanism" in motion (cf. Omann, Ines/Bohunovsky, Lisa/Hinterberger, Friedrich et al. 2012, pp. 20 - 21). Citizens and civil society can demand more sustainable strategies, measures and laws from politics. Politics, on its side, can demand more sustainable products and services and corresponding methods of working from companies and indeed demands such where required. The offer of more sustainable products and services, in turn, enables consumers to satisfy their needs more sustainably.

6. Conclusion

In conclusion, principles of action for a *green and fair economy* can and should be defined: The following principles embody - briefly and concisely - the guidelines along which actors at the individual levels should orient themselves to in order to effectively support the development of the economy to a green and fair economy.

Principles for politics:

- Develop sustainability strategies in a holistic and participatory manner
- Implement sustainability strategies consistently in political, budgetary and regulatory processes

Principles for business, i.e. companies:

- Integrate the ecological and social aspects into the core business of the company
- Combine financial and sustainability reporting
- Observe national and international guidelines and recommendations
- Act collectively and enter into obligations with other companies for joint campaigns

Principles for individuals, i.e. consumers, employees and citizens:

- Consumers: ask for sustainable products and services
- Employees: actively demand and promote sustainable actions by companies
- Citizens: demand sustainable strategies, measures and laws from politics, the state and the administration

Only if these principles are time and again heeded by all actors and a rethinking and different actions take place at all levels can the transformation to a sustainable economy succeed.

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Policy Brief 2012/07: Sustainability and solidarity – basic ideas of new financial structures

Federal financial structures which include fiscal equalization between the German states remain indispensable for leveling out significant regional economic differences and for ensuring sufficient funding for the responsibilities of the public sector across the nation. The necessary revisions of financial structures beginning in 2020 provide an opportunity for a substantial overhaul. The objective is to consolidate in the long term the budgets of federal, state and municipal governments and to safeguard a modern welfare state.

Policy Brief 2013/01: How Germany Benefits from the Euro in Economic Terms

Germany benefits from the euro in a significant number of ways. For example, monetary union membership helps to reduce the cost of international trade, and provides protection against excessive exchange rate volatility. This means that even if Germany had to write off a large percentage of the loans that it has made available to the heavily indebted states of southern Europe as part of the various euro rescue measures, the economic advantages of its membership of the monetary union would continue to predominate.

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