

## **Making sustainable growth work**

The financial and economic crisis and the crises that preceded it in food, energy and other natural resources are clear signs that global structural changes are needed. Sustainability must become a top priority. It is against this background that the Dutch Minister of Housing, Spatial Planning and Environment asked the Social and Economic Council of the Netherlands in June 2009 to advise the Dutch Government on its current policy of sustainable development.

The Council believes that the crisis provides an excellent opportunity to reconfirm the importance of sustainable development (see box). Business-as-usual is not an option, and the structure of the entire economy will have to become sustainable. This will require much more effort. The Dutch Government recognises that a radically different approach is needed, and has indicated that it is working hard on the transition to a sustainable economy and society. The business community has already undertaken numerous initiatives to make the economy more sustainable.

Incentives for sustainability are crucial from a long-term perspective. It is precisely in a time of limited financial means that cost-effectiveness must be taken as a starting point for policy making. This advisory report argues in favour of a comprehensive strategy that takes a structured, innovative approach to economic, ecological and social sustainability. That approach should result in a national sustainability strategy in which the social partners also shoulder their share of the responsibility.

### **The Social and Economic Council's view of sustainable development**

Sustainable development can be realised if the broad concept of prosperity is applied. This concept implies more than material progress (higher standard of living, more purchasing power): it also encompasses social progress (well-being, social cohesion) and a good quality environment (spatial and environmental). What is involved is not only achieving all three aspects "here and now" but also "elsewhere" (internationally, with a particular focus on developing countries) and "later" (for future generations).

Sustainable development has many different dimensions to it; it is also a long-term process, and that means it is fraught with uncertainties. It is unlikely that we will be able to meet the various criteria of sustainability all at once. We will have to choose, for example between the degree of environmental damage considered acceptable and the price that society is prepared to pay for this (ecological versus economic sustainability). A choice of this kind requires a political assessment. At its core, then, sustainable development is a socially driven process that involves searching, learning, weighing up the pros and cons, and commitment.

### ***Tackling sustainability through structured innovation***

The Council calls on the Government to use the present crises to develop an approach to sustainability through "structured innovation". In this context, "structured" stands for consistent, coherent and future-driven. An approach of this kind should in any event involve the following:

- defining "key areas" in sustainability (see below), and maximising public-private partnership initiatives;
- raising the Dutch business community to a position of leadership in world markets for 'clean' technologies;
- preparing employees to meet the knowledge and skills requirements of a sustainable economy;
- working towards a pattern of consumption and production that fits within the limits of sustainable development.

It is not only government that must act in a national sustainability strategy. The business community, civil-society organisations and private individuals also have a role to play. Driving innovation along the path to sustainability can have major social and economic consequences. The social partners represented in the Council consider it vital to think

carefully about these consequences. They and the nature conservation and environmental organisations<sup>1</sup> wish to make ambitious agreements with the new Government on the various aspects of sustainability within different sectors of the economy, based on a coherent and consistent long-term perspective provided by government and within the social and economic context. Sustainable development is something that takes time, but the pace of change can be determined by defining target guidelines. To the extent possible, the relevant agreements should focus on the specific features of the sector and supply chain involved. For example, the Council will use its upcoming advisory report on the bio-based economy to propose an innovative approach to making the economy more sustainable and to describe the social and economic consequences of doing so.

#### *Working on sustainable growth*

The Council applies a broad definition of prosperity in which environmental, social and economic objectives are in balance. This concept assumes numerous synergies between these three “pillars” of public prosperity, but there are also frequent trade-offs between them. The broad concept of prosperity is clearly integrated into the social and economic objectives previously defined by the Council. Those objectives are:

- to promote balanced economic growth within the context of sustainable development;
- to work towards the highest possible employment participation rate;
- to promote a fair distribution of income.

Dynamic economic growth is necessary to foot the bill of sustainable development. One important point in the Council’s objectives is that economic growth must fit within the limits of sustainable development. The quality of that growth is important, in other words the contribution that growth makes to long-term public prosperity. From the ecological perspective, the aims are to set limits on environmental pollution and the loss of biodiversity, to make much more efficient use of energy and raw materials, and to recycle much more waste. The Council regards the recent crises as proof that much more effort must be made in this area.

#### *Indicators of sustainability*

Sustainable development requires us to choose between what are often conflicting interests. It is important to use the right indicators when making these choices. The emphasis in the political debate is traditionally on national income and economic growth. The Council believes that policy makers should also place greater emphasis on other environmental, social and economic indicators. Ultimately, there is a need to consider the relationship between the various indicators. Such a set of indicators should be used to make trade-offs between different interests visible.

The first Sustainability Monitor for the Netherlands, was presented by the Government in February 2009. It is rightly based on a set of indicators rather than a single sustainability indicator (see box). Applying a set of indicators does more justice to the complex nature of sustainable development. The Council believes that the set of indicators in following editions of the Sustainability Monitor for the Netherlands should be more elaborated, e.g. to shed light on the progress of sustainability policies and corporate social responsibility. Next editions should also pay more attention to the Dutch achievements in an European and global perspective.

#### **The Sustainability Monitor for the Netherlands**

On 10 February 2009, the Netherlands Bureau for Economic Policy Analysis (CPB), the Netherlands Environmental Assessment Agency (PBL), the Netherlands Institute for Social Research (SCP) and Statistics Netherlands (CBS) presented the Sustainability Monitor for the Netherlands 2009. The authors of the Monitor

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<sup>1</sup> Nature conservation and environmental organisations were represented in the preparatory committee; they support the recommendations given in this advisory report.

have analysed the status of sustainable development in the Netherlands using the capital approach. The basic premise is that we can identify the available resources (natural capital, social capital, human capital and economic capital) that will be important to both present and future generations in their quest for prosperity.

The Monitor selected indicators for twelve different themes: Climate and energy; Biodiversity; Soil, air and water; Social participation; Trust; Utilisation of labour; Education; Health; Physical capital; Knowledge; Distribution and inequality; and an International dimension (the worldwide consequences of consumption in the Netherlands). Together, these themes give us an impression of the degree of sustainable development in the Netherlands.

The foregoing conclusions lead the Council to recommend inviting the authors of the Monitor to define a orderly set of indicators (a "dashboard"), in keeping with the EU's approach. At relevant moments, this set of indicators should play a leading role in the political process, for example while the coalition agreement and the annual budget are being negotiated.

#### *A sustainable economy and the policy-making process*

Dutch policy makers face a number of strategic challenges that are highly significant for the country's long-term economic prospects. Those challenges concern the climate, energy and the environment, the ageing of the population, the long-term future of the social welfare system and pensions, and the implications of the rise of Asia as an economic force. It is clear that, from a broader long-term perspective, a "business-as-usual" approach is not an option. We will have to put much more emphasis on innovating for sustainability. Structured innovation is needed to make the transition to a sustainable economy and sustainable employment.

By working towards a sustainable, innovative knowledge-driven economy and investing in corporate social responsibility, the business community can grasp opportunities to build on (potential) economic strengths and to meet the challenge of safeguarding the long-term supply of water, food, and energy. These efforts will help put the Netherlands on the road to recovery from the present crisis.

In view of these background factors, an increasingly urgent question is how the Dutch economy should evolve and, following on from this, how the Dutch can and wish to earn their money in future. The future economy must clearly be an energy-efficient and a low-carbon one, characterised by high levels of environmental productivity, recycling, and the reuse of materials. This means that sustainability must be mainstreamed. The challenge will be greatest in energy-intensive sectors. Some of these have already set impressive examples of sustainability (sustainable chemicals, greenhouses as a source of energy). Innovation – both technological and social – plays an important role in achieving the targeted eco-efficiencies. Some sectors also have clear comparative advantages. Government can anticipate by applying policy measures to prioritise structural changes.

#### *Eco-efficient innovations crucial*

Although the Government's current innovation policy is producing some results, there has been relatively little success in the area of eco-efficiency. The Council regards improvement in technology and innovation as crucial. Government should continue to raise the bar for producers and supply chains by applying progressively stricter standards for energy and material use and emissions. The EU already applies such standards for marketable products. Thanks to the size of the European market, the EU's standards are increasingly driving technological progress worldwide.

According to recent research, the Netherlands gets only mediocre marks when it comes to sales of clean technologies. It is in danger of missing out on one of the biggest global growth markets of the future, even though it has a large number of companies perfectly

positioned to lead in segments of the worldwide market in clean technology. Policy makers will therefore have to tackle the underlying factors leading to failure.

One of those factors is the lack of sufficient capital for clean technology, especially in the early stages of development. Investors are inclined to withdraw from the Dutch clean technology sector and invest in other European countries. The Council believes that investing in knowledge and innovation, in particular in eco-efficient innovation, should be given more emphasis in the budget.

Another weakness is the Netherlands' innovation policy, which has so far failed to boost the country's economic position. The problem is that support for the various technologies is inconsistent, both prior to and during their market introduction. The Council has already recommended solving this problem by revamping the financing system and converting to "process financing", which would support the successive stages of the innovation process, up to and including market introduction. Success in completing one stage of the innovation process would result automatically in support during the following stage, guaranteeing continuity.

#### *Government policy programmes*

It is up to government to create an environment that enables, encourages and, if necessary, compels innovation and change in the direction of sustainability. It can intervene in a variety of different ways. These include creating a broad policy framework and providing adequate financing. As a result of the crisis, government must ensure that expenditure on achieving sustainability is as cost-effective as possible.

The Council has observed that various policy programmes focus mainly on economic and ecological themes, in particular with respect to energy, climate and environment. That is not surprising, considering the major issues involved. The Council nevertheless believes that the Government must guard against taking too narrow an approach to sustainable development. It is notable, for example, that the European sustainability policy also encompasses social issues, whereas the Dutch approach is limited to environment-related themes. Dutch policy should also put more emphasis on the social aspects of sustainability, for example employment, health and safety, and the employee as stakeholder. The quest for sustainable solutions should always take place within the broadest possible context, including the conflicts of interests and dilemmas that may be involved.

The Council notes that there are many different institutions and bodies involved in shaping government policy at the moment. It advocates streamlining the various policy programmes and bringing them into line with European sustainability and innovation programmes. The Netherlands' comparative advantages should take precedence in this process. The Innovation Platform has identified those advantages in its "key area strategy" (see box).

### **Key area strategy**

The task of the Innovation Platform is to create the conditions, make the connections, and develop the vision needed to promote innovation and enterprise in the Netherlands. The Platform unites various key stakeholders in the knowledge-driven economy, i.e. experts from the political arena, the business community, science and education. The Dutch prime minister chairs the Platform.

The Innovation Platform has initiated a new approach to boosting the Netherlands' economic structure: the "key area strategy". The aim of this strategy is to help promote the innovativeness of promising sectors of the Dutch economy and ensure that they remain focused on the future. Sustainability is not an explicit policy aim. The key areas are:

- Flowers & food
- High-tech systems and materials
- Water
- Chemicals
- Creative industry
- Pensions & social insurance.

Sustainable energy was recently added to this list.

The key area strategy involves public-private partnerships in innovation, with long-term commitments by both government and the business community guaranteeing continuity.

### ***Rooting sustainability in policy***

To arrive at a sustainable economy and society, government must pursue a policy that offers coherence, consistency and continuity with respect to both its objectives and the way it is implemented on the various orders of scale. Long-term plans must be protected against the changes in short-term preferences of the four-year political cycle. Only then will there be enough leeway to link the short investment cycle of businesses to the long-term aim of sustainability, and will individuals/consumers come to regard government as a reliable partner guiding them through the transition to a more sustainable society.

The Council believes that the consistency and integrated nature of sustainability must be more firmly rooted in policy making. Structured innovation that has a sustainable economy as its aim requires an integrated approach and the commitment of politicians and government to a long-term process. The division of responsibilities must be made clear. In the Council's view, the responsibility for sustainable development should ultimately be borne by *all* the ministries. Commitment of this kind could take the form of a "Sustainability Act" which binds actors to their respective responsibilities. The procedural arrangements regulated in this Act should offer the much-needed policy stability, but must by no means impose additional obligations on enterprises.

### ***Instruments***

The principle of "the polluter/user pays" is an important starting point in the quest for public prosperity and sustainability. Forcing polluters/users to pay the cost to society of their actions (i.e. the external costs) will push innovation in the direction of sustainability. In deciding how to apply this principle more strictly, consideration must be given to the implications for Dutch trade and industry's competitiveness in the international marketplace. It can be implemented in various ways, for example by

- allocating tradable emission rights to international sectors;
- imposing an energy tax on other sectors;
- setting challenging performance standards in the building and other sectors;
- using tax revenues for sustainability purposes;
- concluding covenants;
- critically assessing funding (tax allowances) for its negative impact on the environment.

The Council encourages the Government to explore options at the European level for making the tax system more "green". With respect to the national scope for policy making, for example application of the various VAT rates, the Council believes it is crucial to take

the European "level playing field" into account. If VAT rates are differentiated by level of sustainability, it is important to look at sustainability across the entire life cycle of a product.

The tax system can also be made "greener" by increasing the tax charged on non-sustainable products or by extending that tax to cover more such products. One example is the system of kilometre-based road pricing, a kilometre charge differentiated according to time, place and environmental impact. The Council advocated kilometre-based road pricing in its 2005 advisory report on a mobility market. In a mobility market, the user or polluter pays for the damage he or she has caused society. A mobility market also ensures a more direct relationship between the supply of infrastructure and its use. The way prices evolve in this market reveals precisely where the biggest capacity problems are. It is then possible to search for the most cost-effective solution to those problems.

#### *The role of the Dutch trade and industry*

Sustainability in Dutch trade and industry is, in the first instance, the responsibility of each individual enterprise. They can shoulder that responsibility by practising corporate social responsibility and sustainable supply chain management and by maintaining sustainable business operations and employment conditions. In addition, European and national policy indicate the radius of action for enterprises, mainly in the form of legislation and other statutory regulations, financial instruments and covenants. The competitiveness of enterprises that operate internationally is an important point of concern in this context.

Every sector has its frontrunners, its laggards and the group in between – generally the largest of the three. Benchmarking can help to quickly disseminate the best technologies available, for example. Government can support benchmarking by arranging covenants, a method used in the chemicals sector to good effect. Such examples merit imitation, for example in the building sectors.

Other interesting initiatives can be found in banking. One of the leading Dutch banks, for example, has joined forces with the World Wildlife Fund to create an investment fund for the Dutch market focusing on sustainable energy and clean technology. Dutch banks also wish to investigate how they can contribute most to a low-carbon economy. The Council calls on the Government to grasp this initiative as an opportunity to arrange financing structures with the sector – and preferably with pension funds as well – that make it easier for enterprises to launch sustainability processes.

#### *Collaboration within limits*

Sustainability often depends on enterprises collaborating with one another, but such collaboration should not be at the expense of healthy competition. According to the Council, current competition law offers sufficient scope for collaboration in order to achieve non-economic objectives. A common complaint in among others the fisheries industry is that competition law impedes sustainable development. The Council believes that competition law may well be a limiting factor, but it can hardly be called the main stumbling block in this context. There are various ways in which the sector could tackle this issue, including using public-law channels to address social and ecological objectives.

There is another potential problem, however: enterprises may be uncertain about what competition law does and does not permit. According to the Council, it is therefore important to be as transparent as possible about the limits of competition law and how non-economic interests can be taken into account. The competition authorities can help by issuing well-defined guidelines, providing information to enterprises, and publishing informal viewpoints.

### *Position of employees*

The process of sustainable development will place major demands on the adaptability of all the relevant parties and their ability to react. By exploiting the major potential for "green" jobs, the business community will show that it recognises opportunities in this area and is adjusting its strategic policy making accordingly. The transition to more "green" jobs also involves preparing employees to meet the new knowledge and skills requirements of other technologies. This change often makes huge demands on those involved, and often requires retraining or additional training. Various institutions at both tertiary and secondary level are already keying into this requirement. Such initiatives are shining examples that deserve to be encouraged and followed.

Sustainability is not merely a matter of technology, but also means introducing new work processes (social innovation), including modern management principles (with workers taking on more responsibility and having a certain amount of leeway to experiment), flexible organisational principles and a serious concern for the employee's personal development.

### *The role of the consumer*

Outside pressure can play an important role in pushing enterprises towards sustainability. Government can encourage this by stimulating sustainable consumption. For a proper understanding of sustainable consumption, it is important to make a distinction between the two roles that every individual plays: that of citizen and of consumer. There is a large gap between what worries the citizen (everyone wants a clean environment and fair trade) and how the consumer acts (a low-priced, ordinary product usually sells better than an expensive sustainable one). This means that, although raising public awareness of sustainability helps, it may not be sufficient to change behaviour in a way that is more sustainable. If the aim is to substantially improve the market share of sustainable products and services, then more incentives will be needed to make their price competitive. In addition, sustainable consumption requires more openness about the way a product is made. Shared values concerning the environment, working conditions in developing countries and animal welfare are also important to sustainable consumer behaviour. Finally, the retail trade can play a crucial role in reconciling the citizen and the consumer: offering an appropriate range of sustainable products is the best way to satisfy consumer demand. That is why retailers and the retail sector are increasingly removing non-sustainable products from their shelves (e.g. fish without the MSC label).

Vertaling: Balance, Maastricht.