

EMBARGOED UNTIL 8.00 PM MONDAY 25 NOVEMBER 2002

**HUTT VALLEY CHAMBER OF COMMERCE AND INDUSTRY
ANNUAL GENERAL MEETING**

**MAKING SENSE OF SUSTAINABLE
DEVELOPMENT**

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**LOWER HUTT
25 NOVEMBER 2002**

MAKING SENSE OF SUSTAINABLE DEVELOPMENT

'Sustainable development' is a term that has been around for about 30 years. Over that time it has been interpreted in a variety of ways, ranging from the sensible to the slippery to the downright dangerous. In the last year or so there have been several developments which lead me to hope that the more sensible interpretations are prevailing.

Let me list a few of them.

Last year, the Business Roundtable published a study by former OECD official David Henderson which carefully distinguished between the sensible notions of corporate social responsibility and sustainable development and the false and harmful ones. It attracted a lot of interest; was subsequently published in the United Kingdom and, in translation, in Sweden; and its thesis was supported by members of the Australian Institute of Company Directors at their recent annual conference.

Last year also saw the publication of the book *The Skeptical Environmentalist* by Bjorn Lomborg. This book, which has had a huge impact worldwide, exposes the litany of environmental myths and painstakingly documents the evidence that environmental quality has generally been steadily improving – at least in the developed world. In Lomborg's own words, the message of his book is that:

... children born today – in both the industrialized world and the developing countries – will live longer and be healthier, they will get more food, a better education, a higher standard of living, more leisure time and far more possibilities – without the global environment being destroyed.

There is not a great deal that is new in the book – other writers such as Ronald Bailey, Robert Bradley, Gregg Easterbrook, Greenpeace co-founder Patrick Moore and, in particular, the late Julian Simon have produced similar scholarly research. What accounts for the impact of the book is that Lomborg is a left-leaning Danish academic and former member of Greenpeace, with impeccable environmental credentials.

This year has seen the World Summit on Sustainable Development in Johannesburg, which may mark a turning point in the international environmental debate. The outcome was very different from that of the 1992 Earth Summit in Rio de Janeiro. Rio's Agenda 21 was a green planner's vision: among other things it spawned the deeply flawed Kyoto Protocol. At Johannesburg a combination of the developing countries, the United States, Canada, Australia and Japan defeated the push by the United Nations, NGOs and the European Union for such things as targets for renewable energy, a ban on genetically modified crops and a World Environmental Organisation. The prevailing theme of the Summit was the welcome recognition that, as the late Indira Ghandi put it, "poverty is the worst polluter", and that the best environmental policy is economic growth based not on government planning but on markets and private initiative.

Finally, this month has seen two useful New Zealand contributions to the sustainable development debate. First, a taskforce of the Institute of Chartered Accountants of New Zealand came down against mandatory sustainable development reporting, contrary to the reported demands of Warehouse chairman Stephen Tindall for legislative action to impose requirements on companies. Secondly, Joseph Healy's book *Corporate Governance and Wealth Creation in New Zealand* published this week reaffirms the prime duty of company boards and managements to pursue the goal of shareholder wealth creation rather than a nebulous triple bottom line.

All these developments seem to me encouraging. But I want to make it clear upfront that I am on the side of sustainable development. Indeed, who wouldn't be? I know of no one who favours unsustainable development. The relevant issue is not the goal but what it means and how best to pursue it.

There are difficulties in giving a coherent meaning to the term 'sustainable development'. Its close cousin, 'sustainable management', is a key concept in the Resource Management Act 1991 but it remains undefined ten years after the Act came into effect.

Organisations like the New Zealand Business Council for Sustainable Development typically refer to the 1987 report of the United Nations Commission on Economic

Development chaired by Gro Harlem Brundtland, then prime minister of Norway and leader of the Norwegian Socialist Party. This report defines sustainable development as that which "meets the needs of the present without compromising the ability of future generations to meet their own needs".

A moment's thought, however, suggests this definition is hopelessly problematical. We do not know the resource needs of future generations, in part because we do not know the technologies that will be available to them. A planner in 1900 concerned about the needs of people in 2000 would have been worried about supplies of whale oil for lighting, firewood for heating, copper wire for telecommunications, rock salt for refrigeration and horses for transportation. With technologies such as CDs, MS-DOS and the internet not even in existence 20 years ago, how can we possibly know what the needs of people in 2100 are likely to be? All we can say with confidence is that people operating in markets, with dispersed knowledge and ideas, and incentives to grow long-term wealth, are likely to discover those needs much faster and more accurately than planners and politicians focused on the short-term horizons of politics.

Moreover, people meet their own needs by spending money on food, shelter, health, education and other things that matter to them. Is the UNCED definition then equivalent to the basic goal of economics which is to maximise the value to society of the use of scarce resources? That would be a sensible interpretation. Efforts to pursue intergenerational equity need to take account of the fact that future generations will almost certainly be far, far better off than present generations. How much should relatively poor people today be asked to sacrifice to benefit future generations whose living standards may be equivalent to those of today's mega-wealthy? The most important things to leave future generations are not just natural resources but also a growing capital stock, technology, sound institutions and, above all, a capacity to innovate.

Seen in this way, sustainable development – meeting the needs of the present without compromising the future – is a reality here and now. Life on earth has steadily been getting better. From the beginning of recorded time we have had prophets of environmental doom: an early example was the Roman Tertullian who said in AD 200:

... we men have actually become a burden to the earth, the fruits of nature hardly suffice to sustain us. There is a general pressure of scarcity giving rise to complaints, since the earth can no longer support us. Need we be astonished that plague and famine, warfare and earthquake come to be regarded as remedies, serving, as it were, to trim and prune the superfluity of population.

This is on a par with the views of crackpot environmentalists like the Canadian David Suzuki who told us earlier this year that the world's population would have to be cut by 95 percent if everyone was to live the way we do in New Zealand.

Since Tertullian, the Reverend Thomas Malthus, the Club of Rome, the Global 2000 Report, modern doomsayers like Paul Ehrlich and Lester Brown and Green politicians have kept making the same gloomy predictions. But as Cato Institute director of natural resources Jerry Taylor has recently written:

Look at the data. Life expectancy across the globe has shot up over the course of the last two centuries. People are better fed, better clothed, and better housed today than ever before. Inflation-adjusted prices for virtually all resources – renewable and nonrenewable – are going down, which points to growing abundance, not growing scarcity. Global forests have, on balance, expanded over the past 50 years. Air and water pollution in the most industrialized nations of the world is a mere shadow of what it was decades ago. Even Third World countries have found that, once per capita income reaches a certain point, economic growth coincides with a cleaner environment. And if current trends in productivity, population growth, and consumption continue, we'll be able to return a chunk of land the size of the Amazonian Basin back to nature by 2070. The human footprint on the environment is indeed becoming lighter and softer.

The pessimists have been wrong because they completely misunderstand the way the world works. The prices of natural resources have been falling for centuries. Even petroleum is becoming more abundant, not more scarce: supplies of conventional and unconventional oil could last for a thousand years. Solar power will be available for billions of years. And the greatest resource of all is human ingenuity. When things genuinely become in short supply, prices rise, people conserve more, or switch to substitutes, or find ways of increasing supply – all of which eases the shortages. The world is not on a path of unsustainable development. But you would not realise this by

listening to many environmentalists, school teachers and Green politicians – who are to be found in all political parties. As the US satirist H L Mencken once said:

The whole aim of practical politics is to keep the populace alarmed (and hence clamorous to be led to safety) by menacing it with an endless series of hobgoblins, all of them imaginary.

The outcome of the Johannesburg Summit gives rise to hope that a new agenda for sustainable development may be taking shape. Rather than focusing narrowly on 'sustainability', the more sensible notion has gained ground that what developing nations need is economic development and that environmental progress will follow. Also, there is an increasing consensus about the best means of advancing sustainable growth. A recent World Bank study of 11 developing countries found that economic policies that led to the greatest amount of ecological sustainability were:

... altering the rates of exchange and interest, reducing government budget deficits, promoting market liberalization, fostering international openness, enhancing the role of the private sector, and strengthening government and market institutions, often coupled with pricing and other reforms in key sectors such as industry, agriculture and energy.

Conversely, the study found that state intervention in the economy often creates inefficiencies and that economic inefficiency leads to resource waste and excessive pollution. Free-market economies use energy and other resources far more efficiently than government-directed economies.

Another study by the World Economic Forum sought to measure sustainability for 142 nations based on measures of pollution trends and ecosystem conditions, along with measures of human well-being, social capacities and governance. It confirmed that developed countries have made substantial economic progress and that nations with freer economies have better records in improving environmental quality.

Other writers have noted that key institutions in promoting both growth and sustainability are the rule of law, well-defined property rights, freedom of contract, tort

liability for third party effects and – contrary to the advocacy of anti-globalisation groups – free trade.

All of these findings are relevant to economic and environmental policies in New Zealand. Both our economy and our environment have benefited from efforts to get prices right, establish clear property rights (eg in fisheries), remove subsidies, open markets to competition, and corporatise and privatise state-owned businesses.

There is ample scope for further advances. Both the economy and the environment would benefit from decisive action on roading to reduce traffic congestion in Auckland. I wish we would get serious about genuine environmental problems rather than fret about remote ones such as global warming. Problems such as water quality, erosion, loss of native birds, destruction of native forests by possums, and smog in Christchurch are crying out for attention. The solution to many of them lies in creating clear property rights, developing markets for trading, and introducing commercial structures and incentives.

Instead of pursuing initiatives with both economic and environmental benefits, we have seen lose-lose outcomes. The government's action on Timberlands was a case in point, and regrettably the Business Council for Sustainable Development failed to oppose it. The environmental group Ecologic has pointed out that internationally, Greenpeace and World Wildlife Fund support sustainable management of native forests but their local affiliates, together with Forest & Bird and ECO, oppose it.

Equally, the government's determination to ratify the Kyoto Protocol seems logically inexplicable. Beyond the first commitment period it will impose massive costs on the economy for minimal environmental gain. Full implementation of the Treaty would retard CO₂ build-up in the atmosphere by only six years by the turn of this century. Lomburg has pointed out that:

For the cost of Kyoto for just one year we could solve the world's biggest problem: we could provide every person in the world with clean water.

This alone would save two million lives each year and prevent 500 million from severe disease.

In similar vein, Lawrence Summers, former chief economist at the World Bank and former Secretary of the US Treasury in the Clinton administration, has observed:

Poverty is already a worse killer than any foreseeable environmental distress. Nobody should kid themselves they are doing Bangladesh a favor when they worry about global warming.

At a company level, there is also a need for clearer thinking about environmental issues. I know of no New Zealand business leaders who are not environmentally conscious, and who would not see a good environment as part of the overall quality of life in this country. Companies in land-based industries may well see reporting on their environmental practices and standards as making good business sense. But it is another thing again to advocate that firms should be forced to embrace triple bottom line accounting. Financial reporting has evolved over centuries to provide meaningful information about company profitability, but even so accounting practices can be controversial and subject to change. No one has the foggiest idea how to go about environmental and social reporting in an equally rigorous way, let alone how to lump three bottom lines together meaningfully. Nor is it obvious why three bottom lines should be preferred to four or five – including things like ethics and corporate governance. There are serious risks that by going down this path companies will neglect their prime duty to create shareholder value, waste money on consultants and corporate bureaucracies, and create multiple objectives which blur the accountability of boards and management for performance.

We should also not take proclamations of virtue at face value. Sometimes what is involved is little more than self-serving public relations or a strategy to buy favours. Enron was America's triple bottom line company par excellence, but it came up several bottom lines short. It was also the market darling, together with WorldCom, of several so-called ethical investment funds.

I have argued in this talk that sustainable development and economic growth are quite consistent – indeed that growth promotes sustainability. Properly understood, sustainable

development is not in conflict with the government's goal of returning New Zealand to the top half of the OECD income rankings.

At the same time, sustainable development is too loose and ill-defined a term to be a useful policy construct. We have better analytical tools to fashion both economic and environmental policies.

Worse, for some environmental advocates, sustainable development is essentially concerned with putting boundaries around economic growth. This would make it impossible to improve environmental conditions around the world. In addition, their propensity to espouse planning and regulatory approaches to environmental management leads to lose-lose outcomes and threatens the welfare of future generations.

Most of the environmental trends that we observe today suggest a sustainable present and future. Julian Simon's long-run forecast was that:

The material conditions of life will continue to get better for most people, in most countries, most of the time, indefinitely. Within a century or two, all nations and most of humanity will be at or above today's Western living standards.

I also speculate, however, that many people will continue to *think and say* that the conditions of life are getting worse.

Those who form their opinions on the basis of science rather than superstition must continue to argue that the doomsayers are wrong. Development *is* sustainable, and more sensible understandings of what sustainable development means and how to achieve it appear to be gaining ground.