



AUSTRALIAN  
CONSERVATION  
FOUNDATION

# BETTER THAN GROWTH

THE NEW ECONOMICS OF GENUINE PROGRESS AND QUALITY OF LIFE

A PRIMER FOR POLICY INNOVATION

# Contents



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The Australian Conservation Foundation (ACF) is committed to inspiring people to achieve a healthy environment for all Australians. For over 40 years we have been a strong voice for the environment, promoting solutions through research, consultation, education and partnerships. We work with the community, business and government to protect, restore and sustain our environment.

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# Introduction

› **THE ECONOMIC MODELS OF THE 20TH CENTURY ARE NOW HITTING THE LIMITS OF WHAT IS POSSIBLE – POSSIBLE IN TERMS OF DELIVERING BETTER LIVELIHOODS FOR THE 2.6 BILLION PEOPLE STILL LIVING ON LESS THAN \$2 A DAY AND POSSIBLE IN TERMS OF OUR ECOLOGICAL FOOTPRINT.** ‹

Pavan Sukhdev, Head Global Markets, Deutsche Bank

For most industrialised countries, the 20th century brought great strides in health and life expectancy, access to education and social services, civil rights and equity, and material prosperity.

During this period, the prevailing thought was that material prosperity was the essential gateway to social progress and individual quality of life. This model of development has become an article of faith among rich and poor countries alike.

To be sure, a certain standard of material wealth for individuals and nations is necessary for many essential needs, such as health care, education, housing and good nutrition. But is the emphasis on economic growth as the leading measurement of a society's progress really working well for us?

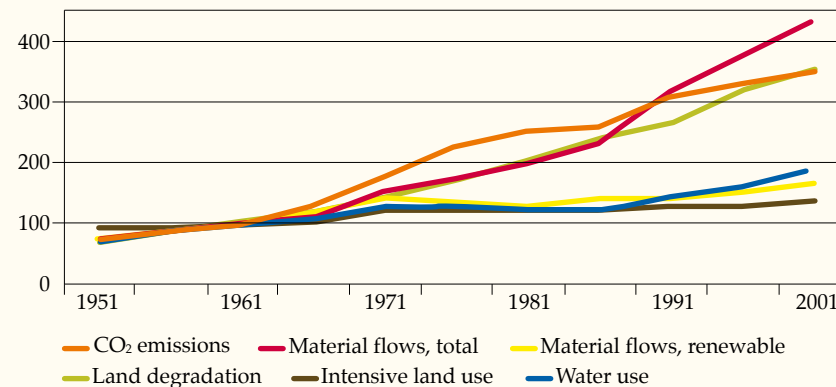
Many think that we can do better, and not just those outside the economic mainstream. When the head of global markets at Deutsche Bank calls on us to re-think the economic models of the 20th century, for example, we should listen carefully.

There are at least three reasons to be sceptical of economic strategies that focus heavily on increasing the material wealth of already affluent nations such as Australia.

First, ongoing increases in wealth in affluent countries are no longer leading to improvements in people's actual quality of life. Even as consumption goes up, wealthy countries are struggling with so-called 'diseases of affluence', such as depression, social isolation, stress and overwork, obesity, and erosion of community connections.

**FIGURE 1: INDICATORS OF AUSTRALIAN ENVIRONMENTAL PRESSURE, 1951 TO 2001**

Index: 1961 = 100



SOURCE: CALCULATED FROM ASFF DATA, CSIRO

Second, the development strategy pursued during the 20th century has triggered an accelerating ecological crisis. Biodiversity and habitat loss, greenhouse pollution and scarcity of key resources such as water and petroleum suggest that future economic structures cannot simply replicate the patterns of past development. For example, Australia's economy has become more efficient over the past 50 years, but total environmental impacts have increased dramatically<sup>1</sup> (see Figure 1).

1. Steve Hatfield-Dodds, 'Economic Growth, Employment, and Environmental Pressure: Insights from Australian experience 1951-2001', Working Paper, ANU Environmental Economics Network (18 November 2004), [een.anu.edu.au/esemhatf.pdf](http://een.anu.edu.au/esemhatf.pdf)

Finally, and most interestingly, some countries seem to have succeeded in providing very high levels of wellbeing *without* high levels of material wealth. In Costa Rica, for example, people lead long, healthy lives and report high degrees of personal satisfaction, despite Costa Rica having far less wealth than most industrialised nations.

For Australia, the critical economic challenge is no longer how to increase the production of goods and services. Many of the things that Australians desire – leisure time, vibrant communities, a thriving natural environment, a sense of purpose and wellness in our lives – will not flow automatically from a growing economy. We need a new approach: not one framed in opposition to economic growth, but one that is actively better than growth.

This report addresses the following eight themes, each of which is an important component in a better-than-growth economy:

### 1 BETTER PROGRESS

#### Improving quality of life, not quantity of wealth

Emphasising measurements of social and individual wellbeing, and ecological health, will give us better results than focusing on narrow economic measurements such as GDP.

### 2 BETTER WORK

#### Balancing paid and non-paid work, family and leisure time

While some Australians are unemployed, many more are overemployed. We'd be better off reducing average working hours and increasing time available for leisure, family, community and our democracy.

### 3 BETTER PRODUCTION

#### Making cradle-to-cradle manufacturing a reality

Rather than producing disposable goods that are destined for the tip, we should reorient design and manufacturing toward completely reusable products.

### 4 BETTER CONSUMPTION

#### Stepping off the consumer treadmill

Overconsumption is at the root of many social and environmental

challenges. Government can support people to become smart consumers; to consume less and consume smarter.

### 5 BETTER MARKETS

#### Aligning prices with social and environmental impacts

Ensuring that the full environmental and social costs are included in the price tag of goods and services will stimulate a cleaner economy.

### 6 BETTER BUSINESS

#### Matching private incentives with long-term public goals

Businesses that focus too much on short-term profits are unlikely to be part of a long-term transition to a more sustainable economy. Supporting non-profit business models and ensuring that executive compensation rewards long-term performance are needed.

### 7 BETTER TAXATION

#### Rewarding work, not waste

Shifting taxes away from productive activity such as income generation and towards pollution and resource use would create jobs while improving environmental performance throughout the economy.

### 8 BETTER REGULATION

#### Fixing cost-benefit analysis

Much government analysis depends on cost-benefit calculations which are based on faulty assumptions and exclude the full value of the natural environment. We should insist that cost-benefit analysis include all aspects of wellbeing.

Fortunately, many of the solutions are staring us in the face. As William Gibson said, "The future is here, it's just not widely distributed yet."

In each of this report's sections, we outline some of the best thinking from around the world on what is needed to transform to a better-than-growth economy. All of these ideas and specific policy recommendations are already being implemented or seriously considered somewhere around the globe.

Our responsibility must be to put these ideas to work for Australia as well.

# 1 Better progress

## IMPROVING QUALITY OF LIFE, NOT QUANTITY OF WEALTH

› ECONOMIC GROWTH IS NOT TO BE PURSUED FOR ITS OWN SAKE. ‹

Australian Treasury, 1973<sup>2</sup>

› WE SHOULD DETHRONE THE IDEA THAT MAXIMISING THE GROWTH IN MEASURED PROSPERITY, GDP PER CAPITA, SHOULD BE AN EXPLICIT OBJECTIVE OF ECONOMIC AND SOCIAL POLICY. ‹

Adair Turner, Chair of the UK Financial Services Authority, 2007

In 2007, the UK Conservative Party issued a landmark report, *Blueprint for a Green Economy*, the first serious attempt by a major political party in the industrialised world to refocus attention away from economic growth and towards real quality of life. The authors reached the startling conclusion that increasing material prosperity has become counterproductive in wealthy societies:

... beyond a certain point – a point which the UK reached some time ago – ever-increasing material gain can become not a gift but a burden. As people, it makes us less happy, and the environment upon which all of us, and our economy, depend is increasingly degraded by it.<sup>3</sup>

The same can be said of Australia. According to extensive survey data from the Australian Unity Wellbeing Index, there has been no overall improvement in our sense of wellbeing since the survey started in 2001, despite a continually growing economy. Meanwhile, Australia confronts worsening trends on critical issues such as greenhouse pollution, health issues (including depression and obesity), traffic congestion, Indigenous disadvantage, and growing levels of social exclusion and inequity.

The usual measures of economic success fail to capture many aspects of our quality of life, and exclude the dimension of sustainability. A recent review by a group of prominent economists, chaired by former World Bank chief economist Joseph Stiglitz, highlighted the numerous shortcomings of the GDP, even as a measure of market activity.<sup>4</sup> For example, GDP ignores or obscures the costs of environmental damage and resource depletion, the value of non-paid work and leisure time, the distribution of wealth, and ‘defensive expenditures’ such as prisons and pollution clean-up costs, which add to GDP despite being based on undesirable conditions.

**From October 2007 to October 2008, satisfaction with life in Australia increased by 1.3 points – even as satisfaction with the economy fell by 12.4 points.<sup>5</sup>**

2. Australian Treasury, ‘Economic Growth: Is it Worth Having?’, Australian Government Publishing Service (1973), Foreword, [www.treasury.gov.au/documents/1689/PDF/Treasury\\_1973\\_Economic\\_Growth\\_is\\_it\\_worth\\_having.pdf](http://www.treasury.gov.au/documents/1689/PDF/Treasury_1973_Economic_Growth_is_it_worth_having.pdf)
3. UK Conservative Party, Quality of Life Policy Group, *Blueprint for a Green Economy* (2007), p.8, [www.qualityoflifechallenge.com/documents/fullreport-1.pdf](http://www.qualityoflifechallenge.com/documents/fullreport-1.pdf)
4. Commission on the Measurement of Economic Performance and Social Progress, *Final Report* (2009), [www.stiglitz-sen-fitoussi.fr/documents/rapport\\_anglais.pdf](http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf)
5. Australian Unity Wellbeing Index, Wellbeing Monitor, August 2009, [www.australianunitycorporate.com.au/community/auwi](http://www.australianunitycorporate.com.au/community/auwi)



BETTER PROGRESS

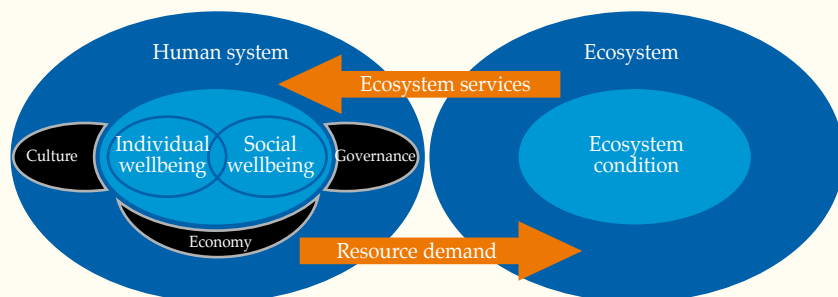


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**FIGURE 2: OECD FRAMEWORK FOR THE PROGRESS OF SOCIETIES<sup>6</sup>**



Our choice of measures to assess Australia’s progress is therefore critical. According to Stiglitz:

**What we measure affects what we do. If we have the wrong metrics, we will strive for the wrong things. In the quest to increase GDP, we may end up with a society in which most citizens have become worse off. We care, moreover, not just for how well-off we are today, but how well-off we will be in the future. If we are borrowing unsustainably from this future, we should want to know.<sup>7</sup>**

So if GDP isn’t a good measure of our progress as a society, or our quality of life and wellbeing as individuals, what should we be measuring instead?

The OECD has proposed a framework focusing on the ultimate goals of individual and social wellbeing, and healthy ecosystem condition (Figure 2). Culture, Economy and Governance are identified as important means for achieving those goals, and resource demands and ecosystem services are tracked as the links between human and natural systems. This framework offers a far more robust and sustainable model of progress, while still allowing for considerable diversity in how individuals and

**Estimated annual cost of mineral and resource depletion to Australia: \$29 billion.<sup>8</sup> This cost is not reflected in our GDP.**

communities choose to value specific social and environmental assets.

Such a framework leads to the construction of alternative indices and measures of progress. Some of the better-known examples of indicators of progress that better reflect our overall wellbeing and ecological sustainability include:

- the UN Human Development Index;
- the Happy Planet Index, an initiative of the New Economics Foundation;
- the Economist Intelligence Unit’s Quality of Life Index;
- the Genuine Progress Indicator, created by Redefining Progress, a US think tank; and
- the WWF Living Planet Index.

The Happy Planet Index, which tracks life expectancy, life satisfaction and ecological footprint of most countries, will surprise those who are accustomed to assuming that life is generally better in wealthy industrialised nations (see Figure 3, page 8). The citizens of Costa Rica, for instance, live nearly as long as Australians, are more satisfied with their lives, and have less than a third of our impact on the environment – all on a per-capita GDP of around US\$11,000, or 30 per cent of Australia’s wealth.

The results of the Happy Planet Index are consistent with other global surveys of life satisfaction. A global Nielsen survey conducted in 2008 found that: “Many of the world’s poorer and emerging markets outranked developed countries for happiness and satisfaction levels in nearly all aspects of their lives.”<sup>9</sup> Australia ranked as “rich but unhappy” in that survey.

Australia has started to collect and present information more comprehensively on some social, environmental and cultural issues. The Australian Bureau of Statistics has developed ‘Measures of Australia’s Progress’, which includes a range of measures reflecting the health of individuals, communities, the environment and our democracy.

In 2009, leaders of G20 nations recognised the need to use a broader range of progress measures, with a commitment to “encourage work on measurement methods so as to better take into account the social and environmental dimensions of economic development”.<sup>10</sup> And a seminal report by a leading group of economists convened by French President Nicholas Sarkozy recommended comprehensive reforms to GDP and other lead economic indicators (see box, page 9).<sup>11</sup>

But even though the overwhelming majority of Australians think we

6. OECD, A Framework to Measure the Progress of Societies, Working draft (September 2009), p.11, [www.oecd.org/dataoecd/40/46/43631612.pdf](http://www.oecd.org/dataoecd/40/46/43631612.pdf)

7. Joseph Stiglitz, ‘Towards a better measure of wellbeing’, *Financial Times* (13 September 2009)

8. Derived from World Bank, *World Development Indicators 2006*, Table 3.15 (Energy and mineral resource depletion estimated at 2.8 per cent of Australia’s national income), <http://devdata.worldbank.org/wdi2006/contents/cover.htm>

9. Nielsen, ‘How men and women cope in a recession’ (12 December 2008), [http://au.nielsen.com/news/documents/HappinessRelease\\_Dec08\\_Final.pdf](http://au.nielsen.com/news/documents/HappinessRelease_Dec08_Final.pdf)

10. Pittsburgh G20 Summit, Leader’s Statement (25 September 2009), [www.pittsburghsummit.gov/mediacenter/129639.htm](http://www.pittsburghsummit.gov/mediacenter/129639.htm)

11. Commission on the Measurement of Economic Performance and Social Progress, *Final Report* (2009), [www.stiglitz-sen-fitoussi.fr/documents/rapport\\_anglais.pdf](http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf)

should be using health, social and environmental statistics to measure our national progress, the great weight of media and political discourse still revolves around economic statistics.

Economic data are released, reported and discussed more often, more prominently and in greater detail than other key indicators. We are bombarded by daily updates on stock-market trends and commodity prices, quarterly and monthly economic releases, and continual analysis of interest rates, employment and spending patterns. Yet many basic environmental indicators are released only every few years, and there remain huge gaps in our knowledge of ecological conditions and trends.

With internet access, one can ascertain the price trend of bananas in Hobart in an instant, but not whether Australia's threatened species are recovering or declining. Export volumes of coal for last quarter? No problem. Condition of native forests or river health? Not available. And so forth.

Improving the quality, comprehensiveness and frequency of data on environmental, social and cultural issues is a precondition for a society that can measure and improve its wellbeing and sustainability, rather than just its material wealth.

In the end, no single definition of progress can encapsulate the disparate values and priorities of all Australians. We need a vibrant and ongoing public discussion about what constitutes progress. Our governments can help lead that discussion by focusing our attention on the quality of our lives and the condition of our environment, not the quantity of market activity. Fixing our existing structure of National Accounts, and refocusing on broader measurements of progress, are vital steps along the way.

12. GlobeScan Incorporated, 'Worldwide Support for True Wealth Measures: Three-Quarters Say Governments Should Look Beyond Economics and Measure Social and Environmental Progress' (12 November 2007), [www.globescan.com/news\\_archives/emm\\_beyondgdp.htm](http://www.globescan.com/news_archives/emm_beyondgdp.htm)

**Proportion of Australians who think we should focus on economic statistics to measure national progress: 18%.**

**Proportion who think we should also use health, social and environmental statistics: 79%.<sup>12</sup>**

**FIGURE 3: RESULTS OF THE HAPPY PLANET INDEX 2.0 (SELECTED COUNTRIES)**

RANK	COUNTRY	LIFE EXPECTANCY	LIFE SATISFACTION	FOOTPRINT	TOTAL
2050 target		87.0	8.0	1.7	89.0
1	Costa Rica	78.5	8.5	2.3	76.1
2	Dominican Rep.	71.5	7.6	1.5	71.8
3	Jamaica	72.2	6.7	1.1	70.1
4	Guatemala	69.7	7.4	1.5	68.4
5	Vietnam	73.7	6.5	1.3	66.5
16	Indonesia	69.7	5.7	0.9	58.9
20	China	72.5	6.7	2.1	57.1
35	India	63.7	5.5	0.9	53.0
53	Sweden	80.5	7.9	5.1	48.0
74	United Kingdom	79.0	7.4	5.3	43.3
75	Japan	82.3	6.8	4.9	43.3
89	Canada	80.3	8.0	7.1	39.4
102	Australia	80.9	7.9	7.8	36.6
103	New Zealand	79.8	7.8	7.7	36.2
114	United States	77.9	7.9	9.4	30.7
118	South Africa	50.8	5.0	2.1	29.7
143	Zimbabwe	40.9	2.8	1.1	16.6

Australia is ranked only 102 out of 143 countries, largely because of our high environmental footprint. Leading countries such as Costa Rica provide long and fulfilling lives for their citizens, at a much lower environmental cost.

**TRAFFIC LIGHT THRESHOLDS FOR THE 3 COMPONENTS**

	Blood red	Red	Amber	Green
Life expectancy		< 60 years	60-75 years	> 75 years
Life satisfaction		< 5.5	5.5 - 7.0	> 7.0
Ecological footprint	> 4 planets	2 - 4 planets	1 - 2 planets	< 1 planet

**HAPPY PLANET INDEX 2.0 KEY (TOTAL)**

All 3 components good	
2 components good, 1 middling	
1 component good and 2 middling	
3 components middling	
Any with 1 component poor	
2 components poor or 'blood red' footprint	

## Final recommendations of the Commission on the Measurement of Economic Performance and Social Progress [www.stiglitz-sen-fitoussi.fr/documents/rapport\\_anglais.pdf](http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf)

1. When evaluating material wellbeing, look at income and consumption rather than production.
2. Emphasise the household perspective.
3. Consider income and consumption jointly with wealth.
4. Give more prominence to the distribution of income, consumption and wealth.
5. Broaden income measures to non-market activities.
6. Quality of life depends on people's objective conditions and capabilities. Steps should be taken to improve measures of people's health, education, personal activities and environmental conditions. In particular, substantial effort should be devoted to developing and implementing robust, reliable measures of social connections, political voice and insecurity that can be shown to predict life satisfaction.
7. Quality-of-life indicators in all the dimensions covered should assess inequalities in a comprehensive way.
8. Surveys should be designed to assess the links between various quality-of-life domains for each person, and this information should be used when designing policies in various fields.
9. Statistical offices should provide the information needed to aggregate across quality-of-life dimensions, allowing the construction of different indexes.
10. Measures of both objective and subjective wellbeing provide key information about people's quality of life. Statistical offices should incorporate questions to capture people's life evaluations, hedonic experiences and priorities in their own survey.
11. Sustainability assessment requires a well-identified dashboard of indicators. The distinctive feature of the components of this dashboard should be that they are interpretable as variations of some underlying 'stocks'. A monetary index of sustainability has its place in such a dashboard but, under the current state of the art, it should remain essentially focused on economic aspects of sustainability.
12. The environmental aspects of sustainability deserve a separate follow-up based on a well-chosen set of physical indicators. In particular there is a need for a clear indicator of our proximity to dangerous levels of environmental damage (such as associated with climate change or the depletion of fishing stocks).

## POLICY DIRECTIONS

- Broaden the ABS's Measures of Australia's Progress in line with the proposed OECD Framework to Measure the Progress of Societies, and increase the frequency, prominence and local geographic relevance of reporting.
- Adopt a National Progress Framework that sets clear targets for national priority indicators (tying in to Measures of Australia's Progress) and with clear independent auditing of progress towards those targets.
  - South Australia's Strategic Plan is a useful model to inform a national framework<sup>13</sup>
  - Broad public engagement in the process of identifying shared targets is critical
- Implement the recommendations of the Commission on the Measurement of Economic Performance and Social Progress (see box, left), and ensure Australia takes a leadership position in pressing for a global agreement on improving the system of National Accounts.
  - Shift the emphasis from measuring production to measuring people's wellbeing and sustainability.
- Invest in the collection and analysis of data to fill critical gaps in Australia's current statistical system.
  - State of the Environment reports consistently highlight the inadequacy of information about Australia's ecosystems. Currently, data for five of the six headline environmental issues in Measures of Australia's Progress are partial, qualified, outdated or have other significant limitations.
  - The Wentworth Group of Concerned Scientist's proposal to establish 'National Environmental Accounts', centred around regular monitoring and reporting on the health of Australia's 56 national resource management regions, should be implemented.<sup>14</sup>
  - Based on its forward work program for 2009-10 to 2012-13, the Australian Bureau of Statistics currently devotes the equivalent of 443 full-time staff positions to economic statistics, compared to 29 for energy and environment. This imbalance should be redressed.
- Through Treasury, report quarterly or twice-yearly on our nation's progress as an integral feature of existing economic reporting such as the Mid-Year Economic and Fiscal Outlook. These could be called 'Progress of the Nation Reports' rather than 'economic' outlooks.
- Increase the frequency of the Intergenerational Report, currently required every five years, so that it can become the overarching primary vehicle for periodic long-term forecasting on Australia's economic, social and environmental progress.

13. South Australia's Strategic Plan, <http://saplan.org.au>

14. Wentworth Group, *Accounting for Nature: A Model for Building the National Environmental Accounts of Australia* (April 2008), [www.wentworthgroup.org/blueprints/accounting-for-nature-a-model-for-building-the-national-environmental-accounts-of-australia](http://www.wentworthgroup.org/blueprints/accounting-for-nature-a-model-for-building-the-national-environmental-accounts-of-australia)



# 2 Better work

## BALANCING PAID AND NON-PAID WORK, FAMILY AND LEISURE TIME

› WE LACK TIME IN OUR OWN LIVES: TIME FOR OURSELVES, TIME FOR FAMILY, TIME FOR COMMUNITY. AND SO MUCH OF THE DESTRUCTION THAT WE WREAK ON THE ENVIRONMENT IS BECAUSE OF MAN'S DESIRE TO FIND MORE TIME. ... WE ARE SO BUSY SAVING TIME THAT WE OFTEN DON'T GET ROUND TO USING IT FOR THE GOOD THINGS IN LIFE. ... I'D LIKE US TO THINK NOT JUST ABOUT HOW WE GIVE PEOPLE A TAX CUT, BUT HOW WE GIVE THEM A TIME INCREASE. ‹

David Cameron, leader UK Conservative Party, 2006

› WE ARE THE ONLY SPECIES WITHOUT FULL EMPLOYMENT. ‹

Matthew Fox, theologian

In 1930, the economist John Maynard Keynes speculated that, due to major advances in productivity in the 20th century, people in wealthy countries would have no need to work more than about 15 hours per week. Within a hundred years, he said, "the economic problem might be solved".<sup>15</sup>

Keynes was right in his prediction of greater productivity, but spectacularly wrong in his vision of a future era of leisure. Rather than enjoying more leisure, we have consistently spent nearly all of our 'productivity dividends' on working more and increasing material consumption whilst also increasing our personal and national debts.

In fact, far from reducing hours of work, Australians are working harder than ever. From 1985 to 2009, the number of working-age

Australians increased by 42.3 per cent, but the total number of hours worked increased by 50.3 per cent. And overwork is not always a matter of a willing trade-off between time and money. Twenty-two per cent of men and 19 per cent of women workers would prefer to be working fewer

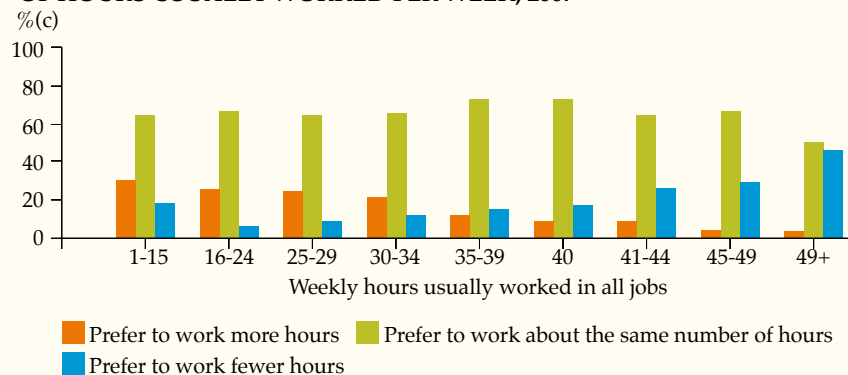
**In 2007, 28.7% of full-time workers in Australia worked 50 hours per week or more.<sup>16</sup> Of these workers, 46% would prefer to work fewer hours, accepting a drop in pay.<sup>17</sup>**

15. John Maynard Keynes, *Economic Possibilities for our Grandchildren* (1930)

16. ABS 6361.0, Table 4

17. Australian Social Trends, ABS 4102.0, 'Trends in Work'

**FIGURE 4: EMPLOYED PEOPLE(a)(b), SATISFACTION WITH NUMBER OF HOURS USUALLY WORKED PER WEEK, 2007<sup>18</sup>**



(a) Excluding those usually working less than one hour a week in all jobs.  
 (b) Excluding those who are a contributing family worker in their main job.  
 (c) People who did not know which option they preferred were excluded prior to the calculation of all percentages presented in this graph.

hours, in exchange for less pay.<sup>19</sup> And 43 per cent of men and 52 per cent of women often or always feel rushed or pressed for time.<sup>20</sup> And so while public and political attention focuses exclusively on unemployment, the phenomenon of overemployment is equally serious (Figure 4).

Overwork takes its toll on personal relationships, health, family and community vitality, democratic participation, and the environment. The pressure to work harder is closely linked with pressures to consume more. Ever-increasing expectations of material standards of living can lead consumers to overcommit themselves, leading to high debt, low savings and pressure to work more to finance it all. Or, as Clive Hamilton puts it, we are constantly urged to use money we don't have to buy things we don't want to impress people we don't like. And of course, the more we consume, the higher our ecological footprint.

What causes overwork? The reasons are complex and varied. According to research by Deutsche Bank, "People tend to work too much because they

**Reduction in energy use achieved by the Utah State Government by shifting to a four-day work week: 13%.<sup>21</sup>**

overestimate the impact of income on happiness."<sup>22</sup> Who hasn't thought that just a bit more wealth will give us peace of mind, open up more choices, or allow us greater comfort? Yet the evidence shows that even individuals in the top income brackets continue to aspire to even greater wealth, with no end in sight.

There are important structural causes of overemployment as well. A wide range of government policies are explicitly designed to mobilise individuals into the formal paid economy, and indeed the ABS tracks the "labour force underutilisation rate" as a key measure of Australia's progress. Implicit in this measure is the view that individuals who are not part of the paid labour force are being socially "underutilised", or that the unpaid activities they are doing are not socially desirable.

In fact, activities including parenting and child care, voluntary community work, non-paid household and carers' work, production outside the marketplace (from suburban veggie gardens to traditional Indigenous ways of life), participating in democratic processes and leisure time are all vital to the health and prosperity of human communities. Yet they are not counted in our economic statistics, and seldom valued in public policy. We should seek to foster these activities, rather than demand ever-increasing productivity and formal workplace participation.

There are better ways of arranging a sensible balance between paid and non-paid work, family life and leisure time. For example, the US state of Utah has recently shifted to four-day working weeks for all public employees. The resulting pattern of work has resulted in significant environmental benefits, with reduced transport and energy costs. But the extra day off work has also led to a dramatic increase in community volunteering in Utah.

Even more far-reaching is the proposal to establish a guaranteed minimum income or "negative income tax". Economists as disparate as Milton Friedman and John Kenneth Galbraith have supported this idea, which decreases the cost of labour, while providing better support for individuals who are engaged in important unpaid activities such as raising children or caring for the unwell. In 2004, Brazil became the first country to enact a law providing for an unconditional minimum income for its citizens.

To introduce such employment policies successfully, workload would need to be more equitably shared across the labour force, to create a more equitable earnings distribution across the economy and overall increased leisure time.

18. ABS 2007 Survey of Employment Arrangements, Retirement and Superannuation, [www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features50Dec+2009](http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features50Dec+2009)  
 19. ABS 6361.0, Table 6  
 20. *Ibid.*  
 21. Joseph Romm, 'Is a 4-day workweek inevitable? Utah cuts energy use 13%', *Grist* (7 August 2009), [www.grist.org/article/2009-08-07-is-a-4-day-workweek-inevitable-utah-cuts-energy-use-13](http://www.grist.org/article/2009-08-07-is-a-4-day-workweek-inevitable-utah-cuts-energy-use-13)  
 22. Deutsche Bank Research, 'Measures of wellbeing' (8 September 2006), p.9, <http://tiny.cc/e2x6s>

## POLICY DIRECTIONS

- Show government leadership by shifting government to a four-day work week.
- Provide incentives to private employers that offer four-day work weeks that still pay a reasonable living wage.
- Consider government support for periods of activity outside the formal paid economy for all workers, such as a one-year paid sabbatical for all Australians after 15 years of work.
- Recognise the importance of non-paid work by integrating non-paid child care, household work, carers' work, volunteering, and the value of family and leisure time into National Accounts and into cost-benefit analysis frameworks.
- Commission research and analysis on the economic, environmental and social implications of adopting a minimum income guarantee.
- Explore options for discouraging overwork, such as tax disincentives for employers that regularly have employees working more than a specified benchmark.



# 3 Better production

## MAKING CRADLE-TO-CRADLE MANUFACTURING A REALITY

› EVERY CREATIVE, MANUFACTURING AND BUILDING DECISION WE MAKE IS INTENDED TO HELP US ACHIEVE ZERO ENVIRONMENTAL FOOTPRINT BY 2020 AND GIVE YOU THE MOST FASHIONABLE, HIGH PERFORMING AND ENVIRONMENTALLY WELL-ROUNDED PRODUCTS IN THE INDUSTRY. ‹

Interface 'Mission Zero' statement<sup>23</sup>

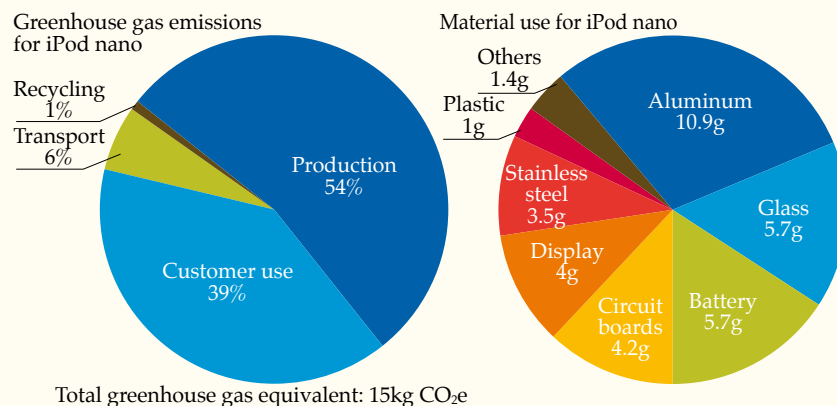
For the past 15 years, Ray Anderson, CEO of Interface carpets, has not been trying to reduce his company's impact on the environment. He's been trying to eliminate it. By using only renewable resources and cutting waste and pollution to zero, Interface is creating a 'cradle-to-cradle' manufacturing system that works with nature, rather than against it. As Anderson puts it:

**We want to drive the whole thing with sunlight, renewable energy, closing the loop on material flows so that you have not only the basic organic cycle we're all familiar with – the dust-to-dust cycle – but in an analogous way, a technical cycle that takes used-up products and gives them life after life through the recycling process, so that no molecules are lost; everything stays in the flow, the material loop.**

Interface is not a bit player; it is the world's largest manufacturer of modular carpets, and the company has seen dramatic financial as well as environmental returns so far. Since the mid-1990s, while increasing production, Interface has:

- cut waste to landfill by two-thirds, saving US\$400 million;
- reduced energy use by half and greenhouse pollution by 71 per cent;
- reduced water intake for modular carpet manufacturing by 74 per cent;
- increased utilisation of recycled and bio-based materials to 25 per cent of

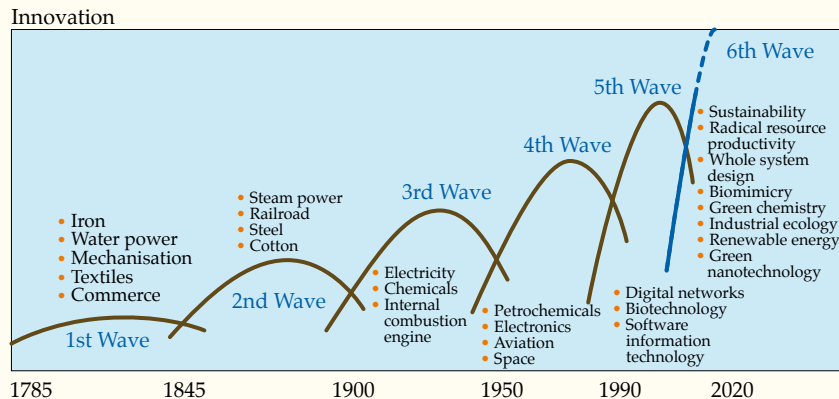
**FIGURE 5: PROFILE OF AN IPOD NANO – GREENHOUSE GAS AND MATERIAL USE PROFILES ILLUSTRATE THE LIFECYCLE IMPACTS OF AN ELECTRONIC PRODUCT, SUGGESTING PRIORITY AREAS FOR IMPROVEMENT<sup>24</sup>**



**From 1991 to 2007, chemical company DuPont cut its emissions by 72%, leading to direct cost savings of US\$3 billion.<sup>25</sup>**

23. InterfaceFLOR, 'Mission Zero', [www.interfaceflor.com.au/Sustainability/Mission\\_Zero.aspx](http://www.interfaceflor.com.au/Sustainability/Mission_Zero.aspx)  
 24. Apple, 'iPod nano product environment report', [www.apple.com/environment/reports](http://www.apple.com/environment/reports)  
 25. Du Pont, Climate Change Position Statement, [www2.dupont.com/Media\\_Center/en\\_US/position\\_statements/global\\_climate\\_expanded.html](http://www2.dupont.com/Media_Center/en_US/position_statements/global_climate_expanded.html)

FIGURE 6: WAVES OF INNOVATION<sup>27</sup>



26. Interface, 'Metrics: What Gets Measured Gets Managed', [www.interfaceglobal.com/Newsroom/Ecometrics.aspx](http://www.interfaceglobal.com/Newsroom/Ecometrics.aspx)

27. The Natural Edge Project, Figure 2, [www.naturaledgeproject.net/Keynote.aspx](http://www.naturaledgeproject.net/Keynote.aspx)

28. Energy Conservation Center, Japan, Top Runner Program, [www.asiaeec-col.eccj.or.jp/top\\_runner/index.html](http://www.asiaeec-col.eccj.or.jp/top_runner/index.html)

29. International Institute for Sustainable Development, 'The Nitrogen Oxide Charge on Energy Production in Sweden', [www.iisd.org/greenbud/nitro.htm](http://www.iisd.org/greenbud/nitro.htm)

30. For more examples see [www.cleanproduction.org/Producer.Resources.php](http://www.cleanproduction.org/Producer.Resources.php)

31. ACT Government Department of Territory and Municipal Services, '2009 Progress towards No Waste', [www.tams.act.gov.au/live/Recycling\\_and\\_Waste/The\\_No\\_Waste\\_Strategy/statistics](http://www.tams.act.gov.au/live/Recycling_and_Waste/The_No_Waste_Strategy/statistics)

total material use; and

- introduced a range of carbon-neutral and fully recycled and recyclable materials, among many other business innovations.<sup>26</sup>

Interface is one of the leading businesses in what has been called the "sixth wave" of industrial innovation<sup>27</sup> (see Figure 6).

As with previous waves of innovation, countries and businesses that are ahead of the innovation curve will have substantial competitive advantages. Computer manufacturer Apple, for example, provides individual environmental reports for each of its products as part of its ongoing efforts to detoxify and improve the recyclability of its products.

There are several good Australian cases of manufacturing redesign achieving real progress towards zero impact, including:

- the Interface FLOR carpet manufacturing plant at Picton, NSW, which has reduced non-renewable energy use by 56 per cent while increasing production;
- the Fuji-Xerox eco-manufacturing facility at Zetland, NSW, which disassembles used equipment and remanufactures from it rather than discarding it, resulting in a 99 per cent resource recovery rate; and
- the Kwinana Synergies Project, which has mapped inputs and outputs for 35 industries in the Kwinana, Western Australia, industrial zone, leading to the identification of dozens of synergistic re-use possibilities.

Strong government policy support can help encourage industrial ecology, moving 'cradle to cradle' processes from the exception to the rule.

Regulatory approaches that take advantage of competitive drivers can work well. Japan's 'Top Runner' program identifies the top environmentally performing product for a wide range of vehicles and appliances, and sets their performance as the minimum design benchmark for the future.<sup>28</sup> This approach creates strong but flexible drivers for ongoing innovation.

Sweden's use of 'feebates' to improve industrial performance is another useful initiative. By taxing power plants with high levels of nitrogen oxide emissions (a cause of acid rain) and redistributing those revenues to lower-polluting facilities, Sweden succeeded in reducing pollution by 34 per cent in just two years from 1990–92.<sup>29</sup> Most examples of feebates are in the pollution context, but the idea could just as easily be adopted to drive resource productivity or biodiversity conservation.

Extended producer responsibility (EPR) laws are another important part of the picture, with many countries now implementing or considering comprehensive EPR frameworks. Take-back mandates, advanced recycling fees, landfill bans and even 'virgin materials' taxes can all be useful EPR tools.<sup>30</sup>

**The ACT increased its resource recovery rate from 22% in 1993 to 74% by 2007, and has committed to zero waste by 2010.<sup>31</sup>**

### POLICY DIRECTIONS

- Initiate a 'top runner' program for appliances and other consumer goods whereby the environmental performance of the best product becomes the minimum design standard after a set transition period.
- Introduce feebates on major pollutants and critical non-renewable resources to penalise waste while rewarding efficiency.
- For all government procurement, require bidders to prepare 'zero-impact' transition plans, with public funding available for both analysis and implementation of cradle-to-cradle initiatives for successful bidders.
- Implement a comprehensive extended producer responsibility framework, with principles and policies that can be applied to increasing categories of products and services over time.
- Ensure all products exported and imported also meet these high environmental performance standards.

# 4 Better consumption

## STEPPING OFF THE CONSUMER TREADMILL

› HAVING THE FEWEST WANTS, I AM NEAREST TO THE GODS. ‹

Socrates, 469–399 BC

Daily we are bombarded by messages to consume more things. Most obviously, advertising urges us to buy more stuff with overinflated promises of happiness. Governments encourage consumption – sometimes directly, but also through the constant recital of the importance of ‘consumer confidence’ and ‘consumer price indices’.

More subtly, social status in modern western societies is powerfully defined by material consumption. By wearing this season’s clothing, driving a luxury car, or possessing the latest iteration of mobile phone and mp3 player, we make implicit claims of success and social standing.

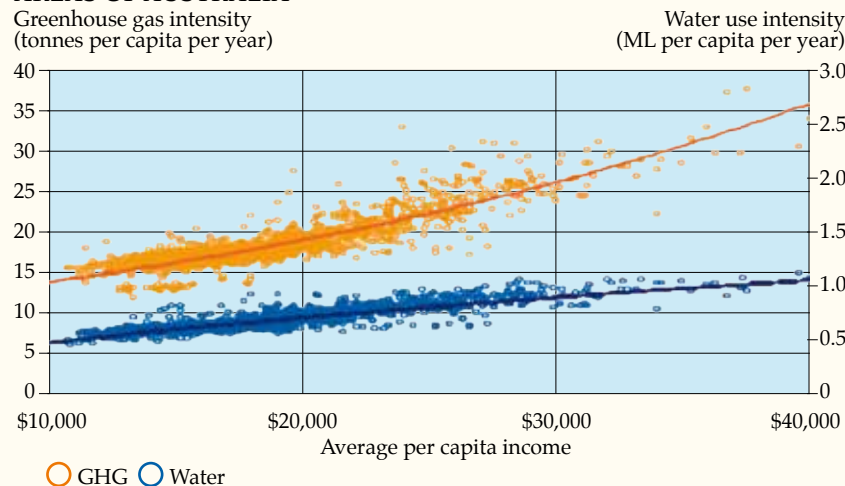
These pervasive messages to consume more tap into deep-seated behavioural inclinations. As Edmund Burke put it:

The great error of our nature is not to know where to stop; not to be satisfied with any reasonable acquirement; not to compound with our condition; but to lose all we have gained by an insatiable pursuit after more.<sup>32</sup>

Of the wealthiest fifth of Australians, 47% believe that they “cannot afford to buy everything they really need”.<sup>33</sup>

We are all consumers, of course, and satisfaction of basic needs as well as reasonable material comforts should be within everybody’s reach. Yet an excessive focus on our consumer aspect, at the cost of our identities as citizens, friends, parents, children and so forth, we risk the afflictions of affluenza: overwork, anxiety and depression, financial stress and indebtedness, disconnectedness from family and community, and a reduced

**FIGURE 7: AFFLUENZA – HIGH LEVELS OF MATERIAL CONSUMPTION LEAD TO HIGHER ENVIRONMENTAL IMPACTS IN WEALTHIER AREAS OF AUSTRALIA<sup>34</sup>**



32. Edmund Burke, *A Vindication of Natural Society* (1756)  
 33. Clive Hamilton, ‘Overconsumption in Australia: The rise of the middle-class battler’ The Australia Institute Discussion Paper No. 49 (2002)  
 34. Australian Conservation Foundation, *Consumption Atlas: Main findings report* (2007), p.8, [www.acfonline.org.au/uploads/res/res\\_atlas\\_main\\_findings.pdf](http://www.acfonline.org.au/uploads/res/res_atlas_main_findings.pdf)

Over the past 18 years, Australian households have increased total debt six-fold from \$190 billion in 1990 to around \$1.1 trillion in 2008 (in real terms).

sense of purpose and wellbeing.

Overconsumption is one of the main pressures on the environment as well. As individuals and societies become wealthier and consume more, the amount of energy, water and other resources required to maintain a high-consumption lifestyle also increases. Analysis by the Centre for Integrated Sustainability Analysis at the University of Sydney shows that relatively affluent areas have increasingly high environmental impacts due to increased consumption of goods and services.

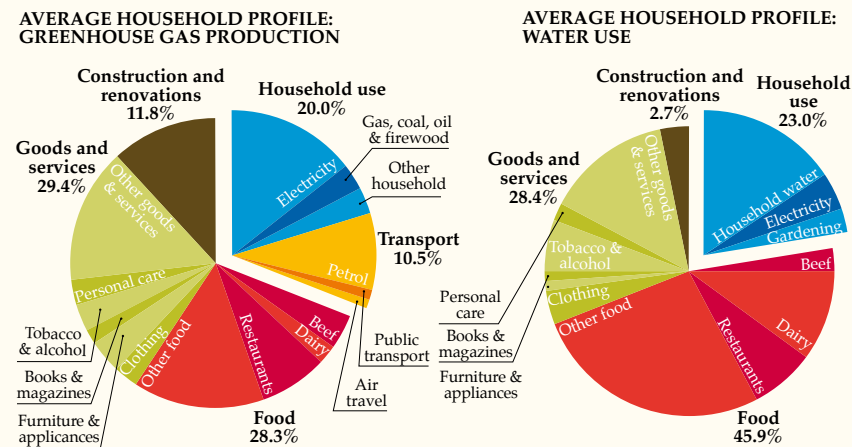
Stepping off the consumer treadmill will result in greater wellbeing and lower environmental pressure through more sensible consumption patterns. Individuals, community groups, businesses and governments all have a role to play.

Government policy should aim to empower smart consumption, rather than consumption at any price. Smart consumption means avoiding consumption that is unlikely to increase wellbeing, and choosing products and services that are ecologically sustainable and ethical. As the UK Conservative Party has expressed it:

**Empowering people involves giving them choice, but it does not mean that government should opt out of the process thereafter. Choices are not made in a vacuum. There are all kinds of influences at work – some benign, many malevolent. Government has a responsibility to ensure that choices are made within a context that makes it easier to choose well.**<sup>35</sup>

Ethical consumerism has been a powerful agent for change, especially for particular niches such as free-range eggs or fair-trade coffee. But consumers working in isolation are not usually successful in changing mainstream markets – overconsumption is a collective problem requiring collective solutions that governments can coordinate.

**FIGURE 8: HIDDEN IMPACTS – THE PRODUCTION OF FOOD AND OTHER CONSUMER PRODUCTS ACCOUNTS FOR MOST OF AUSTRALIANS’ ENVIRONMENTAL FOOTPRINT<sup>36</sup>**



Any serious policy to foster more balanced consumption must also examine the role of advertising as a primary driver of unsustainable consumption patterns. Much advertising is designed to manufacture desire for a product, rather than to provide useful information. The constant barrage of advertising is a constant reminder not to be satisfied with what we have, but rather to consume more and more as the path to happiness.

Restricting the tax deductibility of advertising expenses is one possible solution. In the US, a bill has been introduced that would eliminate tax deductions for direct-to-consumer advertising of prescription pharmaceuticals, for example.<sup>37</sup> Given that about \$10 billion is spent on advertising every year in Australia, removing tax deductibility could generate significant revenue as well as reducing the pressure for unnecessary consumption that does little to improve our overall wellbeing.

**Each year Australians discard at least \$5 billion worth of food, or about \$616 per year per person.**<sup>38</sup>

35. *Blueprint for a Green Economy*, note 3, p.49, [www.qualityoflifechallenge.com/documents/fullreport-1.pdf](http://www.qualityoflifechallenge.com/documents/fullreport-1.pdf)

36. Australian Conservation Foundation, *Consumption Atlas: Main findings report* (2007), pp.5-6, [www.acfonline.org.au/uploads/res/res\\_atlas\\_main\\_findings.pdf](http://www.acfonline.org.au/uploads/res/res_atlas_main_findings.pdf)

37. Protecting Americans from Drug Marketing Act, S.1763 / H.R. 3979, [www.opencongress.org/bill/111-s1763/text](http://www.opencongress.org/bill/111-s1763/text)

38. David Baker, Josh Fear and Richard Denniss, 'What a waste: An analysis of household expenditure on food', The Australia Institute Policy Brief 6 (2009), [https://www.tai.org.au:443/file.php?file=/media\\_releases/PB%206%20What%20a%20waste%20final.pdf](https://www.tai.org.au:443/file.php?file=/media_releases/PB%206%20What%20a%20waste%20final.pdf)

## POLICY DIRECTIONS

- Support consumer choices for environmentally sustainable products.
  - ‘Choice editing’ can cut out unnecessarily damaging products. Australia’s phase-out of incandescent light globes is an example of choice editing with widespread public support. Many other product categories could be addressed similarly (unsustainably harvested fish or appliances below a 3-star efficiency rating, for example).
  - Labelling of food and consumer goods can provide important information about location of origin and environmental impact.
  - A ‘sustainable products unit’ could be established, in consultation with consumers and business, to develop product roadmaps for priority consumer goods. These should include legally binding commitments for improving environmental performance.
- Establish education and social marketing initiatives to highlight the personal, social and environmental costs of excessive consumption, and to encourage people to live a more balanced life.
  - A good example is the City of Kakagawa, Japan, which issued a ‘Slow Life Declaration’ in 2002 urging residents to “shift from a society of mass production and mass consumption, to a society that is not hectic and cherishes our possessions and things of the heart.”
- Government should demonstrate leadership in sustainable procurement.
  - Catering at schools and other public and government facilities is often overlooked, but should be a priority given the heavy ecological cost of certain foods. Government preferences for organic, local, sustainable produce could have major flow-on benefits throughout society.
- Remove tax deductibility for advertising expenditures.
- Strengthen advertising standards. Restrictions already apply to a range of unhealthy or socially undesirable marketing practices, such as cigarettes and advertising targeted at children. Tougher rules around the location and content of advertising would lessen the constant pressure on consumers to buy more.



# 5 Better markets

## ALIGNING PRICES WITH SOCIAL AND ENVIRONMENTAL IMPACTS

› **MARKETS WITHOUT REGULATION WOULD NOT HAVE DELIVERED UNLEADED GASOLINE, AUTOCATALYSTS OR SEATBELTS AND AIRBAGS, NOR WOULD THEY IN ISOLATION HAVE DELIVERED CLEAN AIR TO LONDON AFTER THE KILLER SMOGS OF THE 'FIFTIES.** ‹

Sir Mark Moody-Smith, former CEO, Shell

› **INEFFICIENT FOSSIL FUEL SUBSIDIES ENCOURAGE WASTEFUL CONSUMPTION, DISTORT MARKETS, IMPEDE INVESTMENT IN CLEAN ENERGY SOURCES AND UNDERMINE EFFORTS TO DEAL WITH CLIMATE CHANGE. ... WE CALL ON ALL NATIONS TO ADOPT POLICIES THAT WILL PHASE OUT SUCH SUBSIDIES WORLDWIDE.** ‹

Leaders' Statement, G20 Pittsburgh meeting, 25 September 2009<sup>39</sup>

Markets are an essential economic mechanism. It is crucial that they work well, reflecting ecological realities as well as the interplay of supply and demand.

To accept the operation of free markets is not to preclude a wide range of regulatory strategies. It is neither possible nor desirable to place dollar values on all aspects of the natural world, and just as we don't allow the buying and selling of votes, nor should we allow the buying and selling of rights to engage in activities that are ecologically unacceptable.

Where markets do operate, they should be shaped and guided by overriding 'rules of the game' that ensure ecological sustainability of the economy as a whole. These rules of the game may include taxation or

other pricing mechanisms as a way of more efficiently achieving desired environmental outcomes.

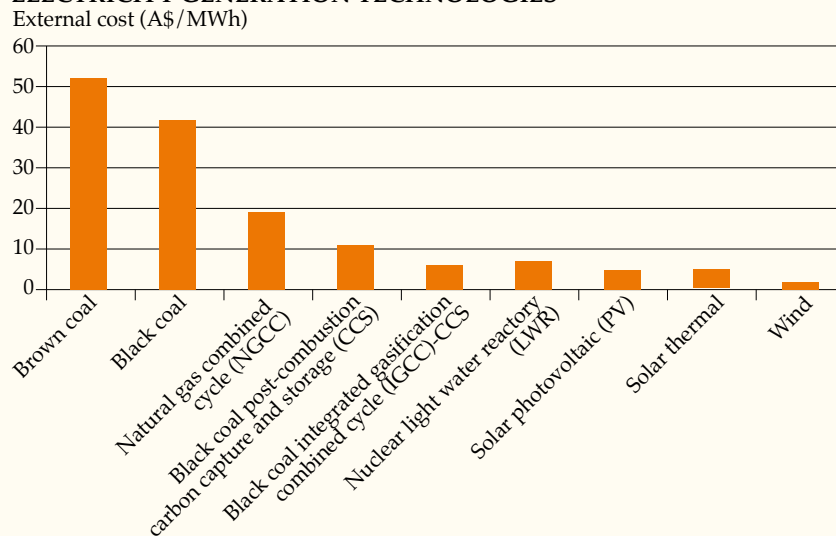
Currently, however, the full ecological and social costs of goods and services are often not reflected in their market price. Inefficient markets frequently exclude the cost of environmental damage caused by production or consumption, leading us all to worse outcomes.

**15 out of 24 critical ecosystem services are currently being used unsustainably on a global basis.**<sup>40</sup>

39. G20 Leaders' Statement, note 10.

40. Millennium Ecosystem Assessment, *Ecosystems and Human Wellbeing: Synthesis* (2005), p.1, [www.millenniumassessment.org/documents/document.356.aspx.pdf](http://www.millenniumassessment.org/documents/document.356.aspx.pdf)

**FIGURE 9: ENVIRONMENTAL AND SOCIAL COSTS OF SOME ELECTRICITY GENERATION TECHNOLOGIES<sup>41</sup>**



41. Australian Academy of Technological Sciences and Engineering, *The Hidden Costs of Electricity: Externalities of Power Generation in Australia* (2009), [www.atse.org.au/uploads/ATSEHiddenCostsElecraport.pdf](http://www.atse.org.au/uploads/ATSEHiddenCostsElecraport.pdf)

42. US Environment Protection Agency, *The benefits and costs of the Clean Air Act: retrospective study, 1970 to 1990* (October 1997), [www.epa.gov/air/sect812/index.html](http://www.epa.gov/air/sect812/index.html)

43. Business Council of Australia, *2004 Annual Review* (2004), p.7, [www.bca.com.au/DownloadFile.aspx?FileName=BCA\\_Annual\\_Review\\_2004.pdf](http://www.bca.com.au/DownloadFile.aspx?FileName=BCA_Annual_Review_2004.pdf)

44. Australian Bureau of Statistics, *Australia's Environment: Issues and Trends 2010*, ABS 4613.0, p.47, [www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4613.0Jan%202010?OpenDocument](http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4613.0Jan%202010?OpenDocument)

45. Boris Worm *et al.*, 'Impacts of Biodiversity Loss on Ocean Ecosystem Services', *Science* (3 November 2006), pp.787-90

Electricity in Australia is an example where poorly designed markets can fail to serve either consumer or environmental interests. A study by the Australian Academy of Technological Sciences and Engineering assessed the 'external' costs of different power sources – those borne by society as a whole, not by the generating company. For every megawatt hour (MWh) produced by brown coal, a cost of more than \$50 accrues to society in the form of greenhouse pollution and health impacts, compared with \$1.50 for wind power. If these costs had to be paid by the generator, wind power would in fact become less expensive than coal (approximately \$77 MWh compared with \$90 MWh)<sup>41</sup> (see Figure 9).

Thus, far from being a 'cost' to society, smart environmental regulation can ensure that markets work more effectively, driving innovation and genuine efficiency.

Seen in this light, fears about the costs of environmental regulation have often proved to be misplaced. Prior to its endorsement, the US Clean Air Act was forecast by critics as likely to result in job losses of between 20,000 and 4 million. In fact, employment in affected areas increased by 22 per cent and the cumulative benefits resulting from the Act from 1970 to

1990 were \$20 trillion – more than 40 times the costs.<sup>42</sup>

Natural resource pricing is another example where sufficient regard for the endowment to future generations needs to be made. A resource rent tax is one way of ensuring sufficient returns are made to the country on the exploitation of natural assets.

As the Business Council of Australia has noted, "Australia's resources are not infinite, they are highly limited if not from one year to the next, from one generation to the next."<sup>43</sup> Using a highly conservative methodology, the Australian Bureau of Statistics found that depletion of Australia's mineral resources is costing us around \$4 billion per year – a loss of wealth that is not reflected in our National Accounts and not included in the market price of those resources.<sup>44</sup>

Many overseas jurisdictions have mechanisms for ensuring that the returns derived from exploitation of non-renewable resources are invested into creating a sustainable future. For example, the Government Pension Fund of Norway invests profits from the oil and gas industry in long-term investments for the benefit of all Norwegians, rather than simply distributing profits to shareholders. Similarly, the Alberta Heritage Savings Trust Fund invests returns from current exploitation of mineral resources for the benefit of future generations.

The adoption of 'depletion protocols' for non-renewable resources would be another important innovation. Such protocols involve reductions in resource use in line with the pace at which they are depleted. For example, if Australia is extracting one per cent of its petroleum reserves per year, it should also reduce petroleum consumption by at least one per cent a year.

**As of 2003 29% of oceanic fisheries had suffered collapse, with catch falling to 10% or less of peak abundance.<sup>45</sup>**

## POLICY DIRECTIONS

- Direct regulation of unsustainable activities should be undertaken to stimulate market innovation and reduce environmental damage. Direct regulation – such as minimum fuel and energy standards for products, fishing quotas and bans, and pollution standards – often has long-term economic benefits.
- Government regulation is required ensure that prices for non-renewable resources include the full environmental and social costs of depletion, pollution and other social and environmental externalities.
  - National Competition Policy is a critical tool to ensure our natural resources are appropriately priced (for example, public forests)
- Businesses should report on the full costs and benefits of their products and activities. Such costs should be included in financial reporting requirements.
- Resource rents should be charged on the exploitation of Australia's non-renewable natural resources and based on the full cost of depleting these resources. Such rents should be placed in a national fund for investment in a sustainable future.
- Australia should investigate adopting depletion protocols for critical non-renewable resources, beginning with petroleum.



# 6 Better business

## MATCHING PRIVATE INCENTIVES WITH LONG-TERM PUBLIC GOALS

› CORPORATIONS AND INVESTORS APPEAR LOCKED INTO MUTUALLY REINFORCING EXPECTATIONS OF HIGHLY VISIBLE SHORT-TERM RESULTS – WITHOUT NECESSARILY FACTORING IN WHETHER THESE STRATEGIES ARE SUSTAINABLE IN THE LONG TERM. ‹

Business Council of Australia, 2004<sup>46</sup>

The Business Council of Australia is hardly alone in its concern about the increasingly short-term focus of business organisations, and the financial sector in particular. As the financial crisis of 2008-09 so painfully reminded us, incentive systems that centre on monthly and quarterly profits are dangerous: they lead to volatility, destructive investment bubbles and a focus on ‘playing the market’ rather than long-term value creation.

And if short-term horizons are bad for stability, they’re doubly bad for the environment. Businesses under pressure to deliver maximum profits each and every quarter are less likely to invest in technologies and practices with long-term environmental benefits, more likely to engage in environmentally risky activities, and inclined to actively oppose sensible public policies on environmental issues.

**64% of Australian company directors, CEOs and CFOs, and 85% of shareholders, agree that companies should be required to report on their social and environmental impacts.<sup>47</sup>**

To address short-termism in the investment sector, a group of global business leaders, including former World Bank President James Wolfensohn and Warren Buffett, recently issued a powerful call for regulatory reform to encourage longer-term perspectives. Noting a need for “real changes in the focus of institutional investors and related intermediaries”, the statement called for governments and business to:

- discourage excessive share trading and rewarding ‘patient capital’ by, for example, setting capital gains tax rates that are “positively and dramatically skewed toward longer-term holdings”;<sup>48</sup>
- ensure fiduciary duties and compensation systems are clearly aligned to long-term performance; and
- increase transparency.

Leading global investors are beginning to act on the realisation that ensuring the long-term health of economies (and the ecosystems and social structures upon which they depend) is a much better bet than trying to pick individual winners on the stock market. For example:

- the California Public Employees’ Retirement System (CalPERS) specifically directs investment into renewable energy and has set energy-efficiency targets across its property portfolio;

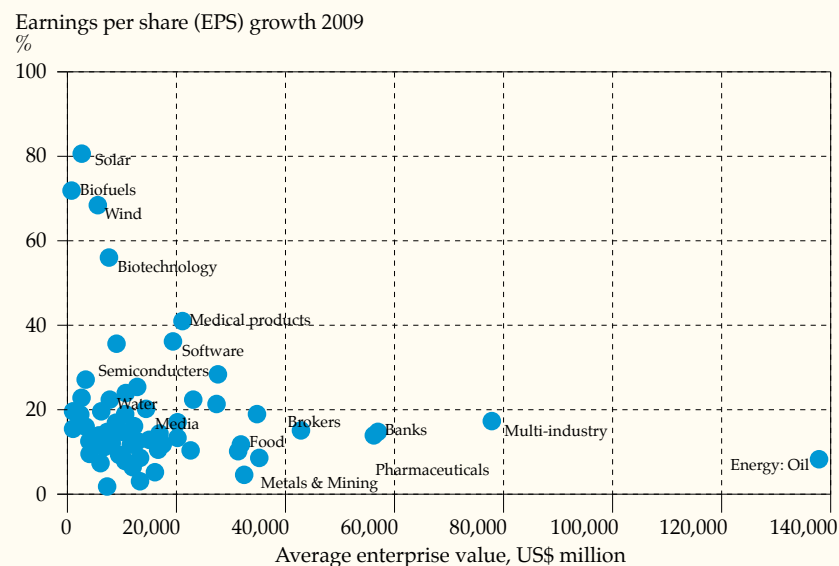
46. BCA 2004 *Annual Review*, note 40, p.3  
47. CPA Australia, *Confidence in Corporate Reporting 2005*, p.23, [www.cpaaustralia.com.au/cps/rde/xbcr/cpa-site/CICR2005.pdf](http://www.cpaaustralia.com.au/cps/rde/xbcr/cpa-site/CICR2005.pdf)  
48. Aspen Institute, *Overcoming Short-termism: A Call for a More Responsible Approach to Investment and Business Management* (September 2009), [www.aspeninstitute.org/bsp/cvsg/policy2009](http://www.aspeninstitute.org/bsp/cvsg/policy2009). (ACF called for similar changes to capital gains taxation in Australia in 2006, but a Parliamentary inquiry rejected the idea. See [www.aph.gov.au/hansard/joint/committee/J9061.pdf](http://www.aph.gov.au/hansard/joint/committee/J9061.pdf), p.77.)

- the Government Pension Fund of Norway has a comprehensive ethical investment policy that has resulted in several very public decisions to divest from companies with poor environmental or human rights records; and
- VicSuper allocates a portion of its investment in each asset class to sustainable investments, and reports on the “carbon efficiency” of each of its investment products over time.

Don Tapscott and David Ticoll describe this shift well in their book *The Naked Corporation*:

**Responsible fund managers should not only ensure that corporations operate in peak form but that the economy does too. It makes sense to consider a company’s impact on the whole economy rather than on just its own bottom line. Corporations that capture short-term gain at the expense of heavy external costs shouldn’t be tolerated by the prudent universal owner.<sup>49</sup>**

**FIGURE 10: AVERAGE EARNINGS GROWTH (2008–09) VERSUS AVERAGE ENTERPRISE VALUE<sup>50</sup>**



And indeed, leading environmental businesses are often good investments, even strictly gauged on financial returns. A study by Goldman Sachs in 2007 forecast strongest earnings per share growth in environmental technology companies, while oil, metals and mining were near the bottom of the list<sup>50</sup> (see Figure 10).

The United Nations takes this one step further, concluding that investment funds are endangering the long-term value of their investments by continuing to pour money into environmentally unfriendly businesses.<sup>51</sup> The UN Principles for Responsible Investment (UNPRI) acknowledges and seeks to redress this long-term risk. With more than 600 signatories managing more than US\$18 trillion in assets, UNPRI investors have committed to assessing environmental, social and governance risks in their portfolio, and actively engaging companies to improve those risks.

But Australian government investment funds are lagging far behind international leaders. A 2007 survey of 36 Australian government funds with more than \$200 billion in assets found that many funds had no policies related to environmental and social issues, seldom engaged with the companies in which they invest on such issues, and directed far more funding to high-impact activities than to new technologies.<sup>52</sup> Our governments must do better than this.

The global financial crisis should also prompt us to rethink whether the public stock corporation is the only, or necessarily the best, way of pursuing economic activity. Cooperatives, not-for-profit businesses, social enterprises and government-operated services all have a rich and successful history and continue to play an important role in our economy.

For example, a quarter of Australians currently procure some of their financial services needs through credit unions and building societies. Non-profit organisations account for 4.1 per cent of Australia’s economy (more than twice the contribution of agriculture, forestry and fishing) and employ 889,000 Australians, or seven times the number employed in mining.<sup>53</sup>

**36 Australian government investment funds are collectively investing \$43 in fossil fuel companies for every \$1 invested in renewable energy.<sup>54</sup>**

49. Don Tapscott and David Ticoll, *The Naked Corporation: How the Age of Transparency Will Revolutionize Business* (2003)

50. Goldman Sachs, 'Introducing GS Sustain' (2007), p.9, [www.unglobalcompact.org/docs/summit2007/g\\_s\\_esg\\_embargoed\\_until030707pdf.pdf](http://www.unglobalcompact.org/docs/summit2007/g_s_esg_embargoed_until030707pdf.pdf)

51. Tricia Holley Davis, 'Pension funds warned to invest in a low carbon future', *Times Online* (4 October 2009), [http://business.timesonline.co.uk/tol/business/industry\\_sectors/banking\\_and\\_finance/article6860021.ece](http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article6860021.ece)

52. Australian Conservation Foundation, 'Responsible Public Investment in Australia' (2008), [www.acfonline.org.au/uploads/res/govt\\_investment.pdf](http://www.acfonline.org.au/uploads/res/govt_investment.pdf)

53. Australian Bureau of Statistics, *Australian National Accounts: Non-Profit Institutions Satellite Account, 2006-07* ABS 5256.0, [www8.abs.gov.au/AUSSTATS/abs@nsf/DetailsPage/5256.02006-07?OpenDocument](http://www8.abs.gov.au/AUSSTATS/abs@nsf/DetailsPage/5256.02006-07?OpenDocument)

54. Australian Conservation Foundation, 'Responsible Public Investment in Australia' (2008), [www.acfonline.org.au/uploads/res/govt\\_investment.pdf](http://www.acfonline.org.au/uploads/res/govt_investment.pdf)

Compared with private corporations, which are often advised that their overriding legal obligation is to maximise shareholder profits,<sup>55</sup> these other types of business organisations can more easily adopt ethical and community-oriented business approaches.

It is surely no accident that successful non-profit and government-owned businesses in Australia – such as VicSuper, mecu, Australian Unity and many public water utilities – have led the way in innovative products and research to foster a sustainable future economy. Australia should celebrate and encourage such cooperative and government business enterprises.

## POLICY DIRECTIONS

- **Encourage long-term, active share ownership.**
  - Introduce minimum holding periods for the exercise of shareholder rights – in the US the Securities and Exchange Commission has proposed a one-year minimum
  - Set capital gains tax rates on a sliding scale to reward long-term ownership
  - Lead by example – funds managed on behalf of Australian governments should be leading the way on active share ownership, rather than trailing the pack
- **Ensure compensation systems encourage long-term performance.**
  - Require fund managers seeking government business to adopt long-term, focused compensation systems across the board
  - Require the remuneration of CEOs of major companies to be genuinely linked to long-term financial, social and environmental outcomes
  - Introduce ‘claw-back’ provisions to recapture executive compensation to cover significant environmental or social liabilities
- **Require major companies to disclose environmental and social performance and risks.**
- **Amend directors’ and trustees’ duties to clarify that the interests of companies extend to the full range of stakeholder relationships, not just shareholders.**
- **Support cooperative and non-profit business models, including by preferences in government procurement.**
- **All government-managed funds should become signatories to the United Nations Principles for Responsible Investment and consider environmental, social and governance practices in their investment portfolios.**

55. See, for example, [www.allbusiness.com/management-companies-enterprises/516029-1.html](http://www.allbusiness.com/management-companies-enterprises/516029-1.html). Compare this with German law, for example, which provides that “the content of the company’s interests is ‘the upholding and ongoing functional fulfilment of the company’s duties to investors, workers, suppliers, customers, consumers, state and society’.” See Christoph Kuhner, ‘Unternehmensinteresse vs. Shareholder Value als Leitmaxime kapitalmarktorientierter Aktiengesellschaften’ (Company Interest vs. Shareholder Value as central principle of capital market-oriented corporations), Presentation to Institut für Arbeits- und Wirtschaftsrecht der Universität zu Köln, (21 July 2003), [www.econbiz.de/archiv/k/uk/swpruefung/unternehmensinteresse\\_shareholder\\_value.pdf](http://www.econbiz.de/archiv/k/uk/swpruefung/unternehmensinteresse_shareholder_value.pdf). (Citations omitted; translation by ACF.)



# 7 Better taxation

## REWARDING WORK, NOT WASTE

- › WE WILL CUT TAXES ON THOSE THINGS WE ALL WANT MORE OF SUCH AS INCOME, INVESTMENT AND INNOVATION. AND WE WILL SHIFT THOSE TAXES TO WHAT WE ALL WANT LESS OF: POLLUTION, GREENHOUSE GAS EMISSIONS AND WASTE....THE GREEN SHIFT PLAN WILL BE GOOD FOR THE ENVIRONMENT AND GOOD FOR THE ECONOMY. GOOD FOR THE PLANET AND GOOD FOR YOUR WALLET. ‹

Stéphane Dion, Leader, Liberal Party of Canada, 2008<sup>56</sup>

- › ALL TAX SYSTEMS ARE INTERVENTIONIST; THE QUESTION IS NOT WHETHER TO INTERVENE BUT HOW TO INTERVENE....A TAX SYSTEM SHOULD INTEGRATE COST WITH PRICE. CURRENTLY, WE DISSOCIATE THE TWO. WE KNOW THE PRICE OF EVERYTHING BUT THE COST OF NOTHING. PRICE IS WHAT THE BUYER PAYS. COST IS WHAT SOCIETY PAYS. ‹

Paul Hawken, 1997<sup>57</sup>

In 2006, the Chinese Government resolved to impose a tax on disposable chopsticks. This initiative may seem trivial, until one realises that the production of 45 billion pairs of disposable chopsticks each year requires 70 million cubic feet of timber – a dwindling resource in China.

The chopsticks tax is a classic example of shifting the tax system so that it encourages efficiency (bring your own re-usable chopsticks!) and discourages needless resource use.

By taxing throw-away chopsticks, China joins the growing list of environmental tax reform projects around the world. From congestion charges in London and Singapore to increased fuel taxes in many European nations to the comprehensive environmental tax shift proposal underway in the City of Winnipeg, governments around the world are seeking to align taxation with environmental goals.

Australian governments raise revenue mostly by taxing productivity,

56. Liberal Party of Canada, 'The Green Shift' (2008), [www.cbc.ca/news/sixtyxns/pdf/liberalgreenplan.pdf](http://www.cbc.ca/news/sixtyxns/pdf/liberalgreenplan.pdf)  
57. Paul Hawken, 'Natural Capitalism', *Mother Jones*, Mar–Apr 1997, <http://motherjones.com/politics/1997/03/natural-capitalism>

work, employment, savings, sales and a few commodities such as fuel, alcohol and cigarettes. What if they instead taxed pollution, resource depletion, waste, inefficiency (such as congestion), advertising, short-term speculation and overwork?

By taxing labour heavily, we discourage productivity and employment. By not taxing the use of most natural resources, we encourage businesses and individuals to squander them. Taken together, these distortions amount to a systematic and deeply embedded bias in favour of environmentally undesirable activities.

As the Worldwatch Institute put it:

**The logic of capitalism, the greatest known system in human history for the creation of wealth, has not changed. But the relative scarcities have. In today's world, the recipe for prosperity is to encourage the use of people ... and to penalize the use of resources.**<sup>58</sup>

There is growing evidence that environmental tax reform can increase employment at the same time that it reduces resource use and pollution.

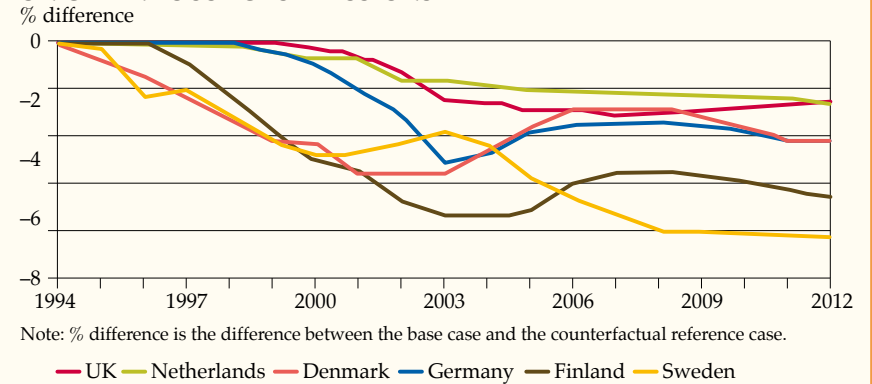
In Australia, economic modelling shows that using revenue raised from pricing carbon emissions to eliminate other inefficient taxes would actually increase employment above a business-as-usual baseline.<sup>59</sup>

This matches the actual experience of many European nations. Germany, for example, increased employment while reducing pollution by shifting taxes from pension contributions to fuel use. The Canadian Liberal Party proposed to use carbon revenue to lower income taxes.

The UK Government's official Green Fiscal Commission recently analysed the likely effects of a series of environmental tax reforms. The Commission concluded that "changing the price of polluting activities relative to clean ones is a vital element in any serious package of measures intended to reduce climate change emissions. Green Fiscal Reform is the

**By reducing pension taxes while increasing fuel taxes, Germany reduced greenhouse pollution by 2.6% while increasing employment by 0.5%.<sup>60</sup>**

**FIGURE 11: THE EFFECT OF GREEN FISCAL REFORM (GFR) ON GREENHOUSE GAS EMISSIONS<sup>61</sup>**



Note: % difference is the difference between the base case and the counterfactual reference case.

**The Canadian Liberal Party's plan to establish a carbon tax while lowering income taxes would increase direct energy costs by \$250 per year, while creating income tax benefits of between \$1000 and \$2000, for most average households.<sup>62</sup>**

best way for a national economy to achieve this shift in prices."<sup>61</sup> (see Figure 11).

In Australia, the promise of environmental tax reform remains largely unrealised. However, the current Review of Australia's Future Tax System has stated that "environmental sustainability is of such importance to Australia's future that the Panel regards it as a principle against which the current system and potential reforms ought to be tested."<sup>63</sup>

58. Worldwatch, *State of the World: innovations for a Sustainable Economy* (2008), pp.39-40, [www.worldwatch.org/node/5568](http://www.worldwatch.org/node/5568)

59. Steve Hatfield-Dodds, 'Beyond the Double Dividend: Modelling the impacts of achieving deep cuts in Australian greenhouse gas emissions' (January 2007), [http://climatesolutions.alp.org.au/download/now/shd\\_pa\\_impact\\_of\\_climate\\_policy\\_options\\_tax\\_efficiency\\_summary\\_aares\\_0701.pdf](http://climatesolutions.alp.org.au/download/now/shd_pa_impact_of_climate_policy_options_tax_efficiency_summary_aares_0701.pdf)

60. Michael Kohlhaas, 'Gesamtwirtschaftliche Effekte der ökologischen Steuerreform' (Macroeconomic effects of the ecological tax reform) (August 2005), <http://tiny.cc/keh03>

61. UK Green Fiscal Commission, *The Case for Green Fiscal Reform* (October 2009), p.5, [www.greenfiscalcommission.org.uk/images/uploads/GFC\\_FinalReport.pdf](http://www.greenfiscalcommission.org.uk/images/uploads/GFC_FinalReport.pdf)

62. Liberal Party of Canada, 'The Green Shift', note 52.

63. Review of Australia's Future Tax System, Consultation paper, summary section 2 (2009), <http://tiny.cc/48n7f>

## POLICY DIRECTIONS

- Map out a 10- to 20-year program of phasing in greater taxation of resource use (including land), pollution and waste, while reducing taxes on income and productivity.
  - Appropriate border tax adjustments can be introduced to maintain the relative competitiveness of Australian businesses, as necessary
- Remove concessions that encourage overinvestment in housing, unsustainable transport and urban sprawl, including
  - remove or cap land tax and capital gains tax concessions for principal residences, and limit negative gearing;
  - remove fossil fuel subsidies and increase taxation of fossil fuels to reflect full externality costs, while using revenue to offset other taxes; and
  - align fringe benefits tax (FBT) treatment of company cars to efficiency standards rather than distance travelled.
- Use the taxation system to reward investment in best practice, greater innovation and green infrastructure through, for example, accelerated depreciation, tax increment financing and support for community financing.
- Remove accelerated depreciation allowances from environmentally intensive investments such as aircraft and mineral exploration, and extend such concessions to sustainable technologies such as renewable energy and water systems.
- Introduce a financial transaction tax and/or graduated capital gains tax system to discourage short-term market speculation and reward long-term share ownership.
- Consider stripping tax deductibility of business advertising expenses, given the central role advertising plays in stimulating overconsumption.



# 8 Better regulation

## FIXING COST-BENEFIT ANALYSIS

› OUR WORLD WILL NEVER BE FREE FROM RISK. HOWEVER, A RISK THAT IS UNNECESSARY, AND NOT FREELY CHOSEN, IS NEVER ACCEPTABLE. ... THE COSTS OF NOT TAKING PRECAUTIONARY ACTION ARE OFTEN VERY HIGH, AS WE'VE SEEN IN THE CASE OF TOBACCO, LEAD AND ASBESTOS. EARLY SCIENTIFIC WARNINGS ABOUT RISKS TO HEALTH WENT UNHEEDED BY GOVERNMENT AGENCIES. AS A RESULT, BILLIONS OF DOLLARS HAVE BEEN SPENT TO DEAL WITH THE CONSEQUENCES OF THESE PROBLEMS. ‹

Jared Blumenfeld, Director of San Francisco Department of the Environment, 2003<sup>64</sup>

› LET US TAKE ON DIRECTLY THE QUESTION OF WHETHER IT COULD EVER BE REASONABLE TO THINK THAT MARKETS COULD REVEAL SOCIAL VALUES FOR USE IN DISCOUNTING BENEFITS INTO THE FAR FUTURE. OUR RESPONSE IS A CLEAR 'NO'. WE CANNOT AND SHOULD NOT AVOID TAKING ON DIRECTLY THE BASIC ETHICAL DISCUSSION. MARKET OBSERVATIONS WILL NOT SOLVE THE PROBLEM FOR US. ‹

Lord Nicholas Stern, 2007<sup>65</sup>

Most major policy decisions in modern democracies are heavily shaped by utilitarian analysis. In Australia, government regulations are subject to cost-benefit analysis under guidelines developed by the Office of Best Practice Regulation (OBPR). Some private sector activity is subject to similar analysis, for example approvals for new major developments under planning and environment legislation.

Inevitably, cost-benefit analysis is forced to grapple with heavily value-laden questions, such as:

- How should the interests of future generations be valued today?
- Do non-human species and natural systems have intrinsic worth, or are they valuable only insofar as they are useful to humans?
- How much importance do we attach to distribution of wealth?
- How comfortable are individuals and communities with risky outcomes?

64. Jared Blumenfeld, 'New Approaches to Safeguarding the Earth', *San Francisco Chronicle* (2003), [http://articles.sfgate.com/2003-08-04/opinion/17503243\\_1\\_risk-environment-code-environmental](http://articles.sfgate.com/2003-08-04/opinion/17503243_1_risk-environment-code-environmental)

The US EPA estimated that permits under the acid rain program would cost \$750 a tonne, but actual costs in 1997 were only \$100 a tonne as a result of industry innovation.<sup>66</sup>

65. Stern Review on the Economics of Climate Change, 'Value judgements, welfare weights and discounting: issues and evidence' (7 February 2007), [www.occ.gov.uk/activities/stern\\_additional.htm](http://www.occ.gov.uk/activities/stern_additional.htm)

66. Ruth Ruttenberg, 'Not Too Costly, After All: An Examination of The Inflated Cost Estimates Of Health, Safety And Environmental Protections' (February 2004), [www.publiccitizen.org/documents/ACF187.pdf](http://www.publiccitizen.org/documents/ACF187.pdf)

67. HM Treasury, *The Green Book*, Annex 6, [www.hm-treasury.gov.uk/data\\_greenbook\\_index.htm](http://www.hm-treasury.gov.uk/data_greenbook_index.htm)

67. Simon Dietz, Dennis Anderson, Nicholas Stern, Chris Taylor & Dimitri Zenghelis, 'Right for the right reasons: a final rejoinder on the Stern review', *World Economics* Vol. 8, Issue 2 (2007), [www.occ.gov.uk/activities/stern\\_papers/stern\\_world\\_economics\\_091107.pdf](http://www.occ.gov.uk/activities/stern_papers/stern_world_economics_091107.pdf)

68. Cameron Hepburn, 'Use of Discount Rates in the Estimation of the Costs of Inaction with Respect to Selected Environmental Concerns', OECD Environment Directorate (19 February 2007), p.8, <http://tiny.cc/eghme>

69. Peter Singer, *Animal Liberation* (1975)

These are not questions with objective answers. Cost-benefit analysis is suffused with ethical judgments and we should always be clear about what those judgments are and whether they conform to the best sentiments of the community.

Getting cost-benefit analysis right is of crucial importance for an ecologically sustainable economy. Bad analysis stymies sound regulation that can promote sustainable outcomes or, conversely, may lead to approval of projects and activities that leave us worse off.

Cost-benefit analysis, as currently practised in Australia under the OBPR's *Best Practice Regulation Handbook*, does not adequately deal with environmental and ethical issues. The following are examples of areas where improvements are needed.

### 1. Allowing for changing values over time

Cost-benefit analysis usually assumes the values of the future will be the same as the values of the present, but we know values shift over time. For example, Australians in the 19th and early 20th century intentionally exterminated the thylacine (Tasmanian tiger), a decision that most Tasmanians today regard with deep regret and a sense of loss.

'Willingness to pay' studies and other techniques for valuing non-market benefits do not capture the importance of changing values over time. A general principle of avoiding irreversible consequences – such as species extinction – is a better approach.

FIGURE 12: COUNTING THE FUTURE – THE UK TREASURY'S DECLINING LONG-TERM DISCOUNT RATE TAKES MORE ACCOUNT OF LONG-TERM ENVIRONMENTAL ISSUES<sup>67</sup>

PERIOD OF YEARS	0–30	31–75	76–125	126–200	201–300	301+
DISCOUNT RATE	3.5%	3.0%	2.5%	2.0%	1.5%	1.0%

### 2. Valuing our long-term future

Cost-benefit analysis sharply discounts future costs and benefits. The OBPR recommends a seven per cent discount rate, based on present market rates of return – a practice Nicholas Stern and many others have criticised on the basis that market rates of return are not social rates of return and, in particular, do not typically reflect environmental or social externalities.<sup>67</sup>

The UK Treasury has recently adopted far lower recommended discount rates – 3.5 per cent and as low as one per cent for costs beyond a 300-year timeframe – which better reflect long-term environmental issues. The OECD has also noted that “the choice of social discount rate is extremely important to the valuation of ... costs of inaction” on environmental issues.<sup>68</sup> (See Figure 12.)

### 3. Taking account of fairness and equity

Cost-benefit analysis as practised in Australia usually excludes any formal incorporation of distributional or equity concerns, even though it is well established that a benefit of \$100 is worth more to a poor person than to a wealthy person. This is in contrast to best practice in other countries.

In the UK, the use of distributional weighting explicitly incorporates the fact that the value of marginal additional consumption decreases as relative wealth increases. The Australian *Best Practice Regulation Handbook* devotes less than one page to equity, and provides no guidance on how to model distributional concerns.

### 4. Recognising the intrinsic value of other species

Cost-benefit analysis ignores costs and benefits to non-human species. Peter Singer, among others, has argued persuasively that the interests of some non-human species should have moral recognition on utilitarian grounds.<sup>69</sup>

**Annual cost of environmental damage caused by the world's 3000 largest companies: US\$2.2 trillion.<sup>70</sup>**

**For each 100 kilometres a commuter cyclist rides, the community benefits by more than \$70 in avoided congestion and other road costs, as well as health improvements.<sup>73</sup>**

### 5. Not reducing everything to money

Cost-benefit analysis stresses monetisation of all costs and benefits, to ensure comparability of disparate costs and benefits. But reducing everything to a single metric is not always a useful approach. As the Stiglitz Commission put it:

**[W]hen driving a car, a meter that added up in one single number the current speed of the vehicle and the remaining level of gasoline would not be of any help to the driver. Both pieces of information are critical and need to be displayed in distinct, clearly visible areas of the dashboard.<sup>71</sup>**

Cost-benefit analysis should avoid simplistic and misleading aggregated 'net present value' calculations in favour of a more nuanced, disaggregated approach where both monetised and non-monetised issues can be discussed on an equal footing.

Furthermore, the excessive reliance on a final benefit-cost ratio as a deciding factor for projects excessively simplifies the complexity and subjectivity of values being assessed. As the Stiglitz Commission noted:

**Market prices are nonexistent for quite a large number of the assets that matter for future wellbeing. Even when they are available, there is no guarantee that they adequately reflect how these different assets will matter for future wellbeing.<sup>72</sup>**

### 6. Involving affected communities directly in assessing costs and benefits

Typically, cost-benefit analysis in Australia relies heavily on top-down economic modelling, rather than bottom-up assessments of costs and benefits by those actually affected and interested. Cost-benefit analysis is seldom used as a tool for engaging communities and helping people explore the desirability of particular decisions, rather it is often a technical exercise conducted by bureaucrats, academics and consultants several steps removed from affected communities.

### 7. Taking a precautionary approach to risks

Cost-benefit analysis frequently assumes risk neutrality, which is irreconcilable to a precautionary approach to environmental management.

### 8. Broadening the toolkit for assessing costs and benefits

In a practical sense, the tools available for assessing particular costs and benefits focus heavily on business costs. The OBPR provides a 'business cost calculator' that facilitates the identification of regulatory compliance costs. But there are no calculators or other tools provided to facilitate, for example, the assessment of the benefits of ecosystem services, or the benefits to business and the community of prudent management of natural resources. Furthermore, even the assessment of business costs often underestimates the innovation and resourcefulness of businesses once regulations are in place.

70. Juliette Jowitz, 'World's top firms cause \$2.2tn of environmental damage, report estimates', *The Guardian* (18 February 2010), [www.guardian.co.uk/environment/2010/feb/18/worlds-top-firms-environmental-damage](http://www.guardian.co.uk/environment/2010/feb/18/worlds-top-firms-environmental-damage)

71. Commission on the Measurement of Economic Performance and Social Progress, *Final Report* (2009), p.17, [www.stiglitz-sen-fitoussi.fr/documents/rapport\\_anglais.pdf](http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf)

72. *Ibid.*, p.266,

73. Bauman A., Rissel C., Garrard J., Ker I., Speidel R., Fishman E., *Cycling: Getting Australia Moving: Barriers, facilitators and interventions to get more Australians physically active through cycling* Cycling Promotion Fund (2008), [www.cyclingpromotion.com.au/images/stories/downloads/CPF\\_Hlth\\_Rprt\\_08\\_web.pdf](http://www.cyclingpromotion.com.au/images/stories/downloads/CPF_Hlth_Rprt_08_web.pdf)

### 9. Improving environmental laws

The assessment of major projects and new developments under environmental and planning legislation is another area where cost-benefit analysis and decision-making procedures are often inadequate to protect the environment.

- While the ‘precautionary principle’ is sometimes incorporated into the law, in practise those opposing a particular proposal often bear the burden of proof to show unacceptable environmental risks, rather than the onus being on project proponents to demonstrate that there will not be environmental damage.
- Environmental impact assessments are often conducted by private consultants paid for by the proponent, leading to obvious conflicts of interest.
- In some cases, as in the Federal Environment Protection and Biodiversity Conservation Act, all social and economic benefits of a proposal must be considered, against only a subset of the environmental impacts.
- Assessments are often affected by ‘optimism bias’, defined as the “demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters”. The UK Treasury recommends specific processes to address optimism bias in cost-benefit analysis.<sup>74</sup>

74. HM Treasury, *The Green Book*, Annex 4, [www.hm-treasury.gov.uk/data\\_greenbook\\_index.htm](http://www.hm-treasury.gov.uk/data_greenbook_index.htm)

75. UK Cabinet Office, *A Guide to Social Return on Investment*, [www.sroi-uk.org/component/option,com\\_docman/task,doc\\_download/gid,51/Itemid,38/](http://www.sroi-uk.org/component/option,com_docman/task,doc_download/gid,51/Itemid,38/)

76. World Resources Institute, *Ecosystem Services: A Guide for Decision Makers* (2008), [www.wri.org/publication/ecosystem-services-a-guide-for-decision-makers](http://www.wri.org/publication/ecosystem-services-a-guide-for-decision-makers)

### POLICY DIRECTIONS

- Undertake a comprehensive review of the OBPR’s approach, including the *Best Practice Regulation Handbook*. Such a review should explore and improve the OBPR’s treatment of distributional concerns, intergenerational equity and ecological sustainability.
- Develop tools to improve bottom-up analysis of social and environmental impacts, including the full inclusion of upstream and downstream externalities.
  - *The Guide to Social Return on Investment*<sup>75</sup>, produced by the UK Cabinet Office, is a useful tool for social impact analysis
  - The World Resource Institute’s *Ecosystem Services: a Guide for Decision-makers*<sup>76</sup> is an example of a tool that greatly improves how ecosystems are dealt with in cost-benefit analysis
  - Environmental economics provides well-established theories for the valuation of non-market impacts and externalities
- Improve assessment of projects and developments under environmental and planning legislation by shifting to truly independent assessors and placing a clear burden of proof on proponents to demonstrate consistency with a precautionary approach, rather than on objectors to demonstrate risk or harm.

# Conclusion

## TOWARDS A NEW ECONOMICS

- › WE MUST BRING BACK INTO SOCIETY A DEEPER SENSE OF THE PURPOSE OF LIVING. THE UNHAPPINESS IN SO MANY LIVES OUGHT TO TELL US THAT SUCCESS ALONE IS NOT ENOUGH. MATERIAL SUCCESS HAS BROUGHT US TO A STRANGE SPIRITUAL AND MORAL BANKRUPTCY. <
- › A MACRO-ECONOMY PREDICATED ON CONTINUAL EXPANSION OF DEBT-DRIVEN MATERIALISTIC CONSUMPTION IS UNSUSTAINABLE ECOLOGICALLY, PROBLEMATIC SOCIALLY, AND UNSTABLE ECONOMICALLY. <

Ben Okri

*Prosperity Without Growth Report, UK Sustainable Development Commission*

We have described the changes proposed in this survey as the ‘new economics’, but they could also be seen as a reconnection with the best economic thinking of earlier generations.

The first modern thinkers on economics – Adam Smith, Jeremy Bentham, John Stuart Mill and others – were deeply concerned with wellbeing and viewed economic systems as nothing more, and nothing less, than a means for achieving wellbeing. Indeed, these thinkers did not view themselves as technicians, describing immutable and mechanistic economic laws, but as moral philosophers, deeply involved with questions of purpose and ethics.

Earlier still, Indigenous societies in Australia and around the world had a great diversity of economic and social relations. But never have human civilisations encouraged a preoccupation with material wellbeing at the expense of human relationships, ethical and spiritual development, and the natural world. And so much of the ‘new’ economics described in this report, focusing on a holistic notion of wellbeing, is actually a return to a very ‘old’ economics as well.

We can improve the wellbeing of Australians, but we cannot do it any longer by increasing the production and consumption of goods. Increases in material wealth have reached the point of vanishing returns for our quality of life. But if we have reached the end of a materialist development trajectory, we are only at the beginning of a richer and more balanced path.

Governments have a central role to play in guiding Australia towards a future where progress is viewed as much more than growth. In this report, we have set out some signposts for what that role might entail.

But governments seldom strike out on such ambitious programs of reform alone. For all of us – as individual citizens, as members of communities and through civil society organisations – we must demand such change if it is to become a reality.

We can and must do better than mere economic growth. We can aim for a society that grows our opportunities – to pursue meaning and personal satisfaction, to live sustainably, to build vibrant relationships with the community and the natural world, and to live life to the fullest.



# Further information

## General

UK Sustainable Development Commission, *Prosperity Without Growth: The Transition to a Sustainable Economy*

[www.sd-commission.org.uk/publications.php?id=914](http://www.sd-commission.org.uk/publications.php?id=914)

UK Conservative Party, *Blueprint for a Green Economy*

[www.qualityoflifechallenge.com](http://www.qualityoflifechallenge.com)

## Better progress

Commission on the Measurement of Economic Performance and Social Progress ('Stiglitz Commission'), Final Report

[www.stiglitz-sen-fitoussi.fr/documents/rapport\\_anglais.pdf](http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf)

New Economics Foundation, Happy Planet Index 2.0

[www.happyplanetindex.org](http://www.happyplanetindex.org)

OECD, 'A Framework to Measure the Progress of Societies'

[www.oecd.org/dataoecd/40/46/43631612.pdf](http://www.oecd.org/dataoecd/40/46/43631612.pdf)

## Better work

Orio Giarini and Patrick M. Liedtke, *The Employment Dilemma and the Future of Work*

[www.genevaassociation.org/PDF/BookandMonographs/](http://www.genevaassociation.org/PDF/BookandMonographs/)

[The\\_Employment\\_Dilemma\\_2006.pdf](#)

(and critique of same by Anthony Judge at

[www.laetusinpraesens.org/docs/romework.php](http://www.laetusinpraesens.org/docs/romework.php))

## Better production

The Story of Stuff

[www.storyofstuff.com](http://www.storyofstuff.com)

William McDonough and Michael Braungart, *Cradle to Cradle: Remaking the Way We Make Things*

Worldwatch Institute, *State of the World 2008: Innovations for a Sustainable Economy* (Chapter 3)

[www.worldwatch.org/node/5568](http://www.worldwatch.org/node/5568)

## Better consumption

UK Sustainable Development Commission, *I Will if You Will: Towards Sustainable Consumption*

[www.sd-commission.org.uk/publications.php?id=367](http://www.sd-commission.org.uk/publications.php?id=367)

ACF Consumption Atlas

[www.acfonline.org.au/consumptionatlas](http://www.acfonline.org.au/consumptionatlas)

## Better markets

World Resources Institute, *Ecosystem Services: A Guide for Decision Makers*

[www.wri.org/publication/ecosystem-services-a-guide-for-decision-makers](http://www.wri.org/publication/ecosystem-services-a-guide-for-decision-makers)

## Better business

Jonathon Porritt, *Capitalism: As if the World Matters*

Bill McKibben, *Deep Economy: the Wealth of Communities and the*

*Durable Future*

## Better taxation

'Towards an ecologically sound Australian tax system', *National Environmental Law Review*

[www.acfonline.org.au/uploads/res/NELA0902\\_BERGER\\_paper.pdf](http://www.acfonline.org.au/uploads/res/NELA0902_BERGER_paper.pdf)

Green Fiscal Commission, *The Case for Green Fiscal Reform – Final Report*

[www.greenfiscalcommission.org.uk/images/uploads/](http://www.greenfiscalcommission.org.uk/images/uploads/)

[GFC\\_FinalReport.pdf](#)

## Better regulation

Stern Review on the Economics of Climate Change (Chapter 2 of main report and subsequent paper on 'Value judgements, welfare weights and discounting: issues and evidence')

[www.hm-treasury.gov.uk/sternreview\\_index.htm](http://www.hm-treasury.gov.uk/sternreview_index.htm)

UK Treasury, *The Green Book* (including supplementary guidance and departmental guidance on environmental issues)

[www.hm-treasury.gov.uk/data\\_greenbook\\_index.htm](http://www.hm-treasury.gov.uk/data_greenbook_index.htm)



Most Australians don't agree that their only goal in life is to increase their financial wealth and consumption – but too often our economic policy treats us as if we do. In reality, our quality of life depends on having time for family and friends, a strong sense of community, and a healthy natural environment. Our economy should help us achieve those goals.

We can do better than a narrow vision of economic growth, and this report shows us how. *Better than Growth* explores the best practical thinking from around the world about how to improve economic measurements and align our economies to long-term environmental and social wellbeing.”

– Don Henry  
ACF EXECUTIVE DIRECTOR



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