

Prime Minister
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An Environment for Growth
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Over the past four decades, the world economy has gone through a period of unprecedented economic growth. In 1950, the world manufactured only one-seventh of the goods it produces today. We can move information and goods around the globe faster than ever before. We can produce more food and more goods with less investment of resources.

Natural resources, labour, capital and technology have traditionally been seen as the key factors behind the generation of growth.

The exploitation of natural resources has been a central ingredient. Agriculture, fisheries, mining and the access to energy have been backbones of economic development. However, the use of increasing amounts of raw materials, energy, chemicals and synthetics have also caused pollution, resource depletion and other long-term damage to the global environment.

The mobilization of human resources is a vital element in all stages of the processes which generate growth. Labour is essential for innovation, extraction, manufacturing, processing and marketing. The economic revolution which has taken place in our part of the world has provided employment opportunities. It has made possible the establishment of welfare societies in which the basic needs of most, if not all human beings are met.

Capital is equally necessary to create growth. In the industrialized world, economic growth can create profit, thus generating new capital for investments which can ensure that growth will continue.

Scientific and technological progress has been an important part of the process of sustaining growth. Human progress has always depended on our technical ingenuity, which has been instrumental in achieving development and environmental progress. But science and technology have also given us the tools to alter the physical environment of our planet profoundly.

In the industrialized countries, we have thus largely succeeded in establishing an economic climate which the Organizing Committee for this symposium has labeled "An environment for growth". But we also need to ask the question: Have we managed to achieve a growth for the environment?

The Global Crisis

We all know the signs of the current global crisis. We are facing mounting threats from hazardous substances, acidification,

deforestation, soil erosion, desertification, massive loss of biological diversity and global warming. Most of these processes continue unabated, many at an accelerating pace. They are all product of the same economic growth which is the very basis of the prosperity and well-being of our societies.

To provide for a doubled world population some time in the next century, the world economy may increase to five or may be ten times of its present scale. If economic growth as we know it is to continue it is obvious that the global environment will be destroyed.

Consequently, we cannot continue to measure growth as we have been used to. So far, we have dealt with it mainly in terms of numbers or annual percentages. Nations, governments and politicians have received their evaluation and credit according to growth rates and diagrams which have taken little or no account of environmental concerns.

We have to rethink what kind of growth we want to foster, and what kind of environment we want our children to inherit.

These must be the fundamental questions addressed at this symposium which has been convened to discuss innovation and growth in Scandinavia. It is essential that we fully recognize the ecological dimension when searching for new answers and solutions. Growth that degrades the environment is not progress, but deterioration.

Sustainable Development

Economic growth has been seen as the leading indicator of development. It should be replaced by the concept of sustainable development -defined as a process of change which can satisfy the needs of the present generation without compromising the ability of future generations to satisfy their needs.

Sustainable development is an ambitious concept. It implies that we must transform the way we organize our societies and transcend the stage of just trying to cope with the rapid changes taking place. We must anticipate and prevent, and we must seize control of our future through a new and more active management of global change.

The current decline must be reversed. We must integrate environmental concerns into all levels of economic planning, performance and accounting. A truly effective strategy for change must be built on a cradle-to-grave approach, from scientific exploration and technological innovation, through the cycles of production and consumption, to emissions control and waste disposal.

We cannot come around that short-term profitability is a measure of corporate success. Business must be profitable to survive, but it must also respond to the demand for sustainability if we are to survive. The private sector itself has a clear responsibility. In order for it to fulfill this responsibility we need a better

interaction between the private sector and governments.

We need policies that encourage environmentally sound investments and make them profitable. To succeed we will need a mix of regulatory means and economic incentives. But no one should believe this to be simple and without great conflict. In fact, economic incentives may prove just as controversial as regulations precisely because they are aimed at changing the patterns of production and consumption.

The role of the market

"The invisible hand" of Adam Smith is unable to promote environmentally sound behavior. Left to itself the market may become an invisible foot that kicks the common good to pieces. In our present economic system, market prices do not reflect the true environmental costs of exploitation, production, consumption or waste management.

We need therefore to internalize environmental costs in all aspects of economic management. We have made limited progress in this field in dealing with the problems of sulphur dioxide, nitrous oxide and harmful waste. But we need to do much more, especially in the field of energy and energy conservation.

More active use of economic instruments to benefit the environment will require an international harmonization of rules and regulations to avoid distortions of international trade relationships. The private sector often finds itself squeezed between the need to respond to environmental demands and short term profit objectives. The urge to maintain a competitive edge often works against the environment in an international economy where competitors may be subject to more lenient requirements.

Consequently, the ground rules for economic operators must work in a wider geographical context.

The need for international solutions.

The nation state is increasingly unable to tackle the challenges of modern civilization alone. Unprecedented, profound and continual technological change has created new and as yet unresolved problems of governance, both nationally and internationally. It will become increasingly contradictory to promise to remedy these international challenges through national measures alone. We need to lift the decision-making of democratic institutions to the international level.

We need stronger international authority. Such authority must make decisions which are binding for member states, even in cases where not all nations agree. This means that nation states must increasingly be willing to transfer decision-making to international authorities. This is necessary in order to regain political control over processes already outside the control of the individual state.

Making the right decisions at the right time is a major challenge that faces all sectors of our societies. We must accept that we

are living in an interdependent world, in which any single government's action is determined as much by the international order as by domestic considerations.

Innovation.

To promote the needed change, we need a climate for innovation where the environmental pioneers come out as winners, also on their own balance sheets. Corporations and companies must increasingly become innovative along several and tightly related dimensions, including the environmental. Technology, organizational models, working procedures and external relations must be changed.

The business community must be given a clear sense of direction, defined through democratic processes and accountable governance. Incentives and disincentives must be applied to help us reach our common goals quickly and effectively. This, in short, is what creating an environment for growth is all about.

In this forum of present and potential leaders - of academics, students and business executives - I would like to focus on two sectors of key importance in this process of change: science and industry.

Science

Science - a listening-post at the outer edges of human perception - holds a key to change. Knowledge and research can increasingly be put to use to promote environmental protection. For science to make maximum impact on the societies of tomorrow it must interact with politics and democratic debate, and it must be geared towards clearly defined needs.

Isaac Newton once said that he felt like a little boy looking for pebbles and shells in the sand while the great ocean of truth lay all undiscovered before him. We have taken to sea on that great ocean, but we shall not drift around at random. Democratically elected politicians must have a clear vision of where to go and a firm grip on the rudder. Science must deliver navigational information and the crew must be convinced that their contribution and support are essential if the voyage is to be successful.

Thus it is the responsibility of the men and women of science to take active part in shaping and directing our common future. Scientists must sit down with the politicians. The doors of laboratories and research institutions must be opened up for a real, in-depth dialogue with society and politics. Universities, research centres and scientists must tell us what is possible and point out how we can chart the unknown.

If we succeed in forging this alliance, we can offer concrete solutions and make the necessary changes.

Industry

Industry is perhaps the leading instrument of change that affects the environmental resource base of world development. It has been

a main cause of air, water and soil pollution, of resource depletion and of dangerous waste material. But industry also possesses the capability to help us find cleaner, safer technologies and enhance the resource base and extend its use.

Industry leaders and business management possess important assets in this work. Many of them are in positions of power in which they can make important contributions to our efforts. They are used to strategic planning. Far-reaching industrial plans, such as the construction of new plants and factories, product development and entries into new markets, are often taken in a ten-year perspective or more.

Sustainable industry requires a transformation of corporate culture which includes the environment as a core value. This can only be achieved through a broad interaction between industry and other sectors of society. Industry must join forces with governments in developing an environment for growth that also foster growth for the environment, and governments must design framework conditions that help rather than hinder sustainable development. Environmental requirements are in fact part of the competition rules for industry and must be dealt with accordingly.

A new generation of agreements

What we need is a new generation of environmental agreements. We must seek maximum environmental benefit at a minimum cost. In Europe, we now have a unique opportunity to improve results through a regional approach. Through environmental investments in Eastern Europe - where the marginal costs of reductions are low, we could drastically reduce the export of long-range pollutants, improving both our national and European environment much more than if we scattered our investments in countries with low pollution and higher marginal costs. We will all benefit if we start our reductions where they cost less.

Unless we are able to develop new thinking on how to proceed, we risk stagnation. The whole process of change is at risk. The strategy of the past has so far favored uniform percentage reductions of emissions from each country. This has worked to the satisfaction of many. There have been reductions and seemingly reason to be pleased.

This is an illusion - a self betrayal. We have actually applauded smaller reductions than we would have had if the best available technology had been used. Percentage reductions have provided a licence to pollute up to a certain level for many who actually could have performed much better.

There are many examples that solutions aiming at better environmental cost-effectiveness can also have other economic benefits. More energy efficient solutions serve not only the environment, they also reduce operating costs.

If we assist the new democracies of Central and Easter Europe modernizing their production systems, we will improve not only

the local environment and reduce its contribution to the global problem. We will also help their economies to become more modern, more competitive, thus creating new demand, new expanded markets and new capacity for growth.

To promote needed investments we need to establish better compatibility between the prospects for profit and environmental objectives. The initiative of Prime Minister Lubbers of the Netherlands regarding an all-European energy charter has the potential of breaking such new ground. Its main idea is to give private enterprise a stronger motivation for engaging in the energy sector in Eastern Europe under framework conditions which are common, predictable, stable and which ensures profit repatriation. It is also designed to help the Soviet Union and countries of Eastern and Central Europe to accelerate their transition towards market economies.

The Energy Charter is particularly promising because it is based on a real commonality of interests, it will make full use of market forces and can generate investments of a scale and magnitude which public programs alone will have difficulties to achieve.

The Charter may:

- promote increased trade in goods and services between East and West.
- promote access to capital and expertise
- open new markets
- promote growth both in the East and in the West.

In Eastern Europe the situation is characterized by

- great untapped energy reserves,
- low energy efficiency and considerable waste
- inadequate access to capital, technology and expertise
- severe pollution problems connected with present energy production, transportation and consumption patterns.

In Western Europe the situation is characterized by

- a large energy market which is able to pay for necessary imports
- a long-term strategic interest in stable and secure energy supply
- declining domestic production of natural gas (except in Norway) while demands are increasing
- available expertise and capital as well as state-of-the-art environmental technology which can be used in the upgrading of the energy sector in Eastern Europe

There are many reasons why environmental objectives can effectively be dealt with in the context of the Energy Charter:

- The potential participating countries constitute a region which share many environmental problems linked to energy
- acidification in Europe originates in Europe. Solutions must be found in Europe.
- the structure of the energy sector in Europe will

determine much of the state of the European environment in the next century
- the principle of anticipating and preventing rather than reacting and curing call for an integrated approach with a special focus on new investments

Closing the Circle

To conclude, better and more sustainable management of global change remains a prime political task for the 1990s. It will require leadership and long-term perspectives in political decision-making.

This cannot be achieved by top-down processes. It must have its basis in the grass roots of our communities, in the minds and priorities of the individual citizen and voter, within the boardrooms of large corporations and small firms, and in the network of interest groups and non-governmental organizations as an essential part of our pluralistic societies.

It has been said that we are the first generation which has the ability to really change the course of world development, and that we may be the last to have the possibility to do it. That is why our generation has a unique responsibility and opportunity to manage global change, and to do it in time.

My colleague in the World Commission on Environment and Development, William Ruckelshaus, has suggested that the shift to sustainable development requires changes in values and social institutions on a scale comparable only to two other eras that transformed the history of humankind: the agricultural revolution and the industrial revolution.

In this comprehensive process of dynamic restructuring, we face the need of replacing capital stock at a high rate to promote more energy efficient technology. The private sector, trade unions and governments should see the great opportunity for investments and for employment, created by this need for change.

Early movers, says Michael Porter, often become international leaders. Through research and development, innovation and cooperation, business firms should aim at being in the forefront of technological progress -introducing ecological and cost-effective methods, products and standards for the next century.

In the 1990s, we will have to make a concerted effort to deal with the tough issues confronting us. To succeed, we surely need the help of an ambitious, creative - and Scandinavian -business community.