

Briefing No.11: Environmental Productivity

"I want to bring environmental productivity into the mainstream of everything the DTI does"

Rt Hon Stephen Byers MP, Secretary of State for Trade and Industry, October 2000

Extending the Concept of Productivity

The Government's central economic objective is to achieve high and stable levels of growth and employment. Key to the Government's economic strategy is the need to improve our productivity - conventionally taken to mean *Labour Productivity*, or output per worker.

This emphasis on labour productivity became important as labour became scarce. Investing to modernise the economy and raise the level of output per worker is crucial for the economy to grow and prosperity to increase.

Yet we now know that our natural resources are also scarce, both in terms of inputs, fossil fuel, metals, available land, but more importantly, the capability of the environment to absorb pollution and waste. In the 21st Century, investing to increase the level of output per unit of resource used will become equally crucial. We will need to increase, by as much as ten-fold or more, the economic output per unit of energy, land or material.

In short, we must invest to raise our levels of *Environmental Productivity* if we are to secure high and stable levels of

growth and employment for the long term, without simultaneously undermining our own quality of life.

Making progress on productivity is measured in terms of closing productivity gaps. For SERA there are two productivity gaps.

Firstly, the Labour Productivity Gap with competitor economies, on which the Government has based much of its economic policy to date. Secondly, the Environmental Productivity Gap, the difference between today's consumption levels and that compatible with sustainable development.

Just as the Labour Productivity Gap is of prime concern today, so the Environmental Productivity Gap will be of prime concern in the future.

Both of these gaps require modernisation of the economy and investment for the long term. This briefing puts forward the case that reforms required to increase environmental productivity should not only play a central role in modernisation, but also sit alongside the pursuit of labour productivity.

Current Government and Labour Party Policy

The goal of improving environmental productivity has now been acknowledged in both Labour Party and Government policy. At Labour's July 2000 National Policy Forum, the following was agreed as policy:

"We will establish an environmental productivity strategy as a central component of the Government's wider goal of modernising the economy. As part of this strategy, we will seek to develop an environmental productivity index and use it to set specific targets for environmental productivity."

Environment, Transport and the Regions Document

Then, in October 2000, the Department of Trade and Industry launched its Sustainable Development Strategy, including the commitment to:

"Work with business, DETR and others to develop reliable indicators of resource [environmental] productivity and set demanding goals for closing the resource productivity gap."

DTI Sustainable Development Strategy

The DTI initially plans to use indicators for the reduction of greenhouse gas emissions and waste disposal, relative to GDP. These will be used as 'proxies' whilst more comprehensive and robust indicators of environmental productivity are developed, ultimately creating a national Environmental Productivity Index. It is rightly acknowledged by the DTI that tackling climate change and achieving sustainability will require the de-coupling of resource use from economic growth and prosperity. This means nothing less than attaining resource use reductions far greater than the rise in GDP.

To achieve this, the DTI plans to set demanding goals for improving environmental productivity and put in place the policy framework required to close the resource productivity gap between today's resource use and that compatible with sustainable development.

Finally, also in October, the Prime Minister announced a new study from the Performance and Innovation Unit (PIU) at the Cabinet Office. This will address issues of resource productivity and how they relate to the Government's policies on renewable energy in particular. The PIU report will be published in the Summer.

For SERA, these commitments represent significant progress, making the link between the Government's economic and environmental strategies much more explicit. However, there still needs to be a change in the way the Government treats the two sides of productivity.

First Term Priorities

There seems to be no limit to the Government's aspirations for improvements in labour productivity. Very few argue that improving labour productivity may be bad for the economy or society. Paradoxically, ambitious aspirations for improvements in resource use are portrayed by some interest groups as a threat to competitiveness and an unreasonable burden on business. Such attacks have made the Government guarded in its rhetoric.

All of the Government's economic policy papers, from the Budget and Spending Review down, are dominated by the objective of improving labour productivity to drive economic progress. The language surrounding the improved efficiency of natural resources, however, is far more defensive. For example, the Spending Review 2000 states that "the Government has made clear through its strategy for sustainable development that economic progress should take account of the needs of everyone, while ensuring effective protection of the environment and the prudent use of natural resources." This implies a false trade-off between prudent use of natural resources and economic progress.

Environmental Productivity as a Business Opportunity

As the DTI's Sustainable Development Strategy recognises, we need to increasingly see the environment as a business opportunity. This perspective can be greatly aided by establishing a policy framework that encourages the environmental innovation, investment and enterprise necessary to improve our environmental productivity.

By establishing demanding goals for improving environmental productivity, and complementing them with the necessary financial incentives, the government can increase business awareness of long-term goals, stimulating innovation and investment into the sustainable technologies and commercial opportunities of the future.

Moreover, by closing the environmental productivity gap faster than other nations, the UK can reduce its overall productivity gap with our international competitors. By tying its economic and environmental strategies together, the Government can increase the chances of achieving its objectives in both.

Environmental Productivity as Good Economics

The proposition of this briefing is that symptoms of an economy displaying poor labour productivity are comparable - indeed, associated - with the symptoms of an economy displaying poor environmental productivity. This being the case, the remedies will follow similar themes and should sit more explicitly side by side.

In October 2000, the Chancellor launched a new drive for productivity and efficiency, seeking to enlist the CBI and the TUC in the fight against specific barriers to productivity. These were identified as restrictive practices; poor management; low skills; under-investment; resistance to innovation; and under-use of technology.

At least the last four of these are also barriers to environmental productivity. Investment, innovation and new technology all have a fundamental role in the attainment of greater labour and environmental productivity.

This should come as no surprise - reducing waste, avoiding pollution, and increasing resource efficiency have long brought financial and business benefits. But there is a greater synergy than just the reduced overheads brought by efficiency.

The absolute imperative of environmental productivity - the need to tackle climate change and reduce substantially our use of non-renewable resources - sets a clear and uncompromising direction for the investment, innovation, skills and technology required to increase labour productivity.

The most clear-cut example is renewable energy. This sector promises a rapidly growing global market in which the UK, with its extensive wind resource, can emerge as one of the leading players. A growing renewable energy industry would bring obvious improvements in environmental productivity, but it would also require the investment in new skills, innovation and technology required to tackle labour productivity.

The same is true of new information and communication technologies. E-business, in particular, has the potential to reduce transport, improve supply chain efficiency and reduce the energy and resource intensity of many products and services.

Whilst these sectors would gain from policies designed to improve environmental productivity, the converse is also true. If the Government does not pursue an aggressive policy on environmental productivity then the sustainable technology sectors will wither in the UK and eventually

Environmental Productivity as Good Politics

The intention to place environmental productivity in the mainstream of government economic thinking also makes good political sense.

Environmental concerns have traditionally had an 'add on', 'peripheral' feel to them, especially in the field of economic and industrial policy. This has not been helped by the domination of phrases such as 'eco-efficiency' or 'factor 10' that, though expressive of important concepts, fail to create the impression of the environment's being at the heart of economic thought.

By explicitly linking the well-understood concept of 'productivity' with environmental objectives, the Government can make it clear that environmental concerns are central to its economic strategy. This change in terminology will help to integrate environmental concerns into mainstream political language and raise the profile of the Government's environmental objectives.

This profile is important. One of the underlying causes of the 'fuel crisis' in September 2000 was the failure to communicate, prior to this, the environmental objectives, rationale or benefits of the fuel duty, or to link it explicitly with incentives for new types of fuel and technologies of the future.

This is also the reason that SERA prefers the term 'environmental productivity' to 'resource productivity' currently being used in government documentation. For it to make a difference to the sustainability of the UK economy, environmental productivity will have to be explained to a wider public and firmly linked in the public mind to green policy and environmental goals. Placing environmental productivity at the heart of economic policy can, by supplying an explicit objective that is easy to communicate, provide a popular framework for the Government's policies on tax, spending and investment.

move overseas, where more favourable conditions prevail. Already, the solar panel manufacturing industry has indicated that it is more likely to build its European factories in Germany or The Netherlands.

The Environmental Productivity Index (EPI)

An Environmental Productivity policy will require indicators and targets. The DTI Sustainable Development Strategy has set out a process to develop such indicators and the Labour Party is committed to the development of an Environmental Productivity Index (EPI). The index will probably comprise a basket of different environmental indicators per unit of GDP. The DTI has already indicated that carbon dioxide (CO₂) emissions and waste production will be used initially. Other elements could include land take or agricultural inputs such as fertiliser and pesticides, but the DTI will doubtless consult on the details of the index.

There is a danger that the make-up of such an index could become mired in technical and bureaucratic arguments over the content. This must be avoided by Ministers setting tight deadlines and demonstrating the political will to start using the index, rather than merely setting it up. The work of the DETR in developing the Sustainable Development Indicators should provide much of the grounding for the EPI. For example, the index could be one single aggregated figure or a set of half a dozen relating to specific elements. Advisors to the Swedish Finance Ministry have recently argued that too much information may be lost in a single aggregated indicator. They recommended

a set of quotas based on specific resources and pollutants. However the EPI is made up, it will be a major step forward in being able to set goals for improving environmental productivity.

Once the EPI is established, the Government would have to set targets to improve the EPI each year. Clearly it would have to show increases in environmental productivity, but the really important indicator would be how the EPI compared to overall gross domestic product (GDP). For if EPI increases were slower than the rate of growth then absolute resource use and pollution would still be increasing. Any meaningful target for the EPI would have to maintain an improvement greater than GDP growth over the period. Such targets would have to be the subject of detailed work, but in order to achieve the sort of 'factor ten' improvements in environmental productivity we require, SERA would suggest targets should start in the order of an annual one per cent improvement in the EPI over and above GDP growth.

Once targets have been set, the EPI should be monitored by the Government's central economics policy team. The Treasury economic models should be adapted to include the measure and delivery of EPI targets should be one of the core objectives of the Budget and Spending Reviews.

Conclusions

The signs of an economy displaying poor labour productivity are closely related to the symptoms of an economy displaying poor environmental productivity. The remedies - of modernisation, investment, innovation, skills and new technology - are similar too.

Moreover, the need to tackle climate change and reduce substantially our use of non-renewable resources sets a clear and uncompromising direction for the efforts required to increase labour productivity. Given the absolute environmental limits in which we live, we must invest to raise our levels of environmental productivity if we are to secure high and stable levels of growth and employment for the long term.

Consequently, it makes political and economic sense that the efforts required to close the labour and resource productivity gaps be considered as two equal parts of a wider productivity challenge. By tying its economic and environmental strategies together in this way, the Government can increase the chances of achieving its objectives in both.

About SERA...

This briefing was produced by SERA - Labour Environment Campaign. SERA is an independent environment group, affiliated to the Labour Party. Our members include over 100 MPs, 6 of whom are Cabinet Ministers. SERA believes that social and environmental concerns must be addressed together and works to integrate green thinking into Labour Party policies. SERA campaigns by organising events such as conferences and seminars, and publishes regular briefing papers and a magazine entitled 'New Ground'. For more information about the issues discussed in this briefing paper, please contact SERA or fill in our on-line membership form.

**SERA, 11 Goodwin Street, London N4 3HQ - 020 7263 7389 - seraoffice@aol.com
<http://users.aol.com/seraoffice/>**