Prince of Wales Accounting for Sustainability Forum

Remarks of Prof Tim Jackson

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Your Royal Highness, Ladies and Gentlemen,

First of all thankyou for inviting me here today. I've followed the progress of Accounting for Sustainability with interest for a while now, and at each involvement it strikes me again just how important the painstaking work of accounting is. Attention to detail, organisation of data, the concept of balance. All of this is essential.

And it's little surprise I suppose to find that this attention to detail, the very ethos of the accountancy profession, turns out to be absolutely vital in protecting what is, as your Royal Highness reminded us, our one and only planet. The only planet, as the fridge magnet says, with chocolate. And many other good things besides.

There seems little doubt too that the liveability of our one and only chocolate-blessed planet is under threat. Not, strangely, from chocolate-seeking aliens anxious to make their home in the sweetshop of the galaxy. But from the rapacious appetites of the chocolatiers themselves. From us, ladies and gentleman. From the continually expanding material demands of the human economy.

There is something almost blindingly simple at the heart of our ecological crisis. So simple, you can explain it to your children. If you can distract them briefly from the internet and the Wii. And it is this: that a continually expanding subsystem of a finite system carries within it the seeds of its own demise. An ever expanding economy divided into a finite planet does not compute. It's as simple as that.

When the economy is small and resources are plentiful you can easily forget this fact. That's precisely why it was possible for the early economists to exclude land and resources from the economic production function. Endless growth was conceivable then because the limits seemed far away.

Even so, they managed to envisage a time beyond growth. As long ago as 1848 John Stewart Mill was able to write: 'I cannot regard the stationary state of capital and wealth with the unaffected aversion so generally manifested towards it by political economists of the old school. I am inclined to believe that it would be on the whole, a very considerable improvement of our condition.'

Eighty years later John Maynard Keynes said something pretty similar in his essay on the Economic Possibilities for our Grandchildren. It's unfortunate then – almost careless, perhaps – that, even as he was writing this essay, Keynes was composing a theory of macroeconomics that would turn out to rely inherently on economic growth to maintain stability. Because there's no doubt at all that economic stability matters. The evidence on this is pretty much unequivocal. When economies collapse, bad things happen. Prosperity in any meaningful sense of the word evaporates.

And so it is that we find ourselves caught in a kind of trap. Continual growth of the material economy pushes us closer and closer to the edge of the ecological cliff. And yet to pull the brake on growth is to court economic and social disaster. When consumption growth stalls, as we've seen so dramatically in the last eighteen months, people find themselves out of work, firms find themselves out of business and a government which fails to respond appropriately very soon finds itself out of office. (That's not a prediction about the outcome of the next election, by the way.)

This uncomfortable reality is what I have called elsewhere the ‘dilemma of growth’. It is, quite possibly, the most profound dilemma of our times. And it demands a response.

The prevailing response, of course, is to call for something called ‘decoupling’. Doing more with less. Allowing economic output, value added, to go on increasing, but decoupling that output from material throughput. This idea of decoupling is critical to any vision of ecologically sustainable enterprise. Resource-efficient, low-carbon goods and services represent the only possible basis for a sustainable economy on a finite planet.

And here you can see, I think, why the Connected Reporting Framework is such an important innovation. Because for the first time it connects the dollar value of the firm to its material and environmental implications. And in doing so, it shows that reducing the material footprint of production really can be in the best interests of the company. Sometimes all that’s needed is a framework to point this out.

But there’s also a bit of a puzzle here. The profit motive in a capitalist economy should lead and has led to improvements in the environmental efficiency of companies. The carbon intensity of each dollar of global economic activity, for instance, has fallen by about a third in the last four decades. The puzzle is that this hasn’t led to an overall reduction in carbon emissions. In fact, global emissions have increased by 40% since 1990 – the Kyoto base year. And that, believe it or not, isn’t quite what the Protocol had in mind.

Efficiency is not enough. As long as the economy is still growing, gains from efficiency are always off-set by the impacts of scale. For global emissions to fall below climate targets and stay there,

efficiency must outrun, and continue to outrun, scale for as long as the economy keeps on growing.

And when you look at what's needed to achieve that, you find that it really is a big ask. If you want an equitable world, in which everybody can afford a Western lifestyle with the assumption of two per cent income growth per annum, and still remain within the IPCC's carbon limits, the carbon intensity of economic activity has to fall from 770 gCO2/$ to around 6 gCO2/$, a 130-fold improvement.

And when you look even further ahead, you find that by the end of the century you need an economy in which the carbon intensity is not just small but actually less than zero. Instead of pumping carbon relentlessly into the atmosphere, each and every dollar of economic activity must on average pull carbon out of the atmosphere.

Let's just pause for a moment to ask what exactly such an economy looks like. What are its economic activities? What does it run on? What's its resource base? How is it organised? What is life like in such a society?

And the extraordinary thing is, you won't find a politician anywhere who can give you an answer to any of those questions. In spite of the fact that this is the logical outcome from the continued pursuit of a growth-based economy.

Now I don't expect you to conclude from this that we should abandon economic growth altogether. It's perfectly clear that income growth is essential in the poorest nations, where 2 billion people still live on less than the price of cappuccino from Starbucks. And it might even seem counter-intuitive to you to ponder – as I have done recently – whether it's possible at least in the advanced nations to achieve prosperity without growth.

But at the very least, it seems clear we need to think quite radically about the direction our economies are going. Effective as they are – at least until recently – at producing ever-increasing consumption, this very same dynamic pulls resources relentlessly through the economy and shows no sign at all of slowing down the pursuit of a thoroughly materialistic global consumerism. And progress towards the carbon targets so desperately sought in Copenhagen is destined to evade us, unless we can begin to build a different kind of economics.

That's not a trivial task of course. But we're not entirely in the dark either. Let's suppose for starters that we could reverse that neoclassical turn and put ecological assets back into the production function. What would that mean for economics? In the first place, it would mean that we'd have to value ecosystem services, quantify environmental damages and include those numbers in our financial assessments, much as you've already begun to do within the Connected Reporting Framework.

But it would also have more significant ramifications. In particular, we'd have to invest in maintaining and protecting those ecological assets. This is exactly what happens after all in relation to conventional capital. An economy or a company that continually sweats its assets, gradually becomes more fragile, more brittle, unable to maintain its productivity, and ultimately risks collapse.

The fact that ecological value remains largely invisible in the balance sheet isn't going to save us from the consequences of ecological asset sweating. We urgently need to bring ecological assets back into focus. And perhaps most obviously, we need to change the nature and structure of our investment in order to maintain these assets.

Investment would need to focus specifically on protecting what's called critical natural capital: the productivity of soils, the quality of water supplies, rainforests, wetlands, habitats, fish stocks, biodiversity, the integrity of the climate and the natural resource base.

We'd also need to invest in the resilience of vulnerable communities, the protection of agricultural livelihoods, the alleviation of rural poverty. And in broader terms, in our ability to flourish as human beings in less materialistic ways.

This last task involves revitalising our notion of public goods. Public spaces, as Michael Sandel has recently reminded us, are vital not just as a safety net for those without private affluence, but because they connect us to each other, to our shared inheritance, to our common future. And in doing so they allow us to think of ourselves as engaged meaningfully in a common endeavour.

Investment after all – such a basic economic concept – is nothing more nor less than a relationship between the present and the future. It captures the essence of sustainability.

It's important to note that these new 'ecological investments' won't necessarily behave like conventional investments. They probably won't show the short paybacks and high returns so favoured by existing capital markets. Some of them might not show conventional financial profitability at all. Their returns are ecological and social in nature. They pay back over longer timescales. And we will have to devise new metrics, new frameworks to identify and assess those returns.

Again, I don't want to underestimate the difficulty of that task. It clearly extends beyond the remit of individual firms or individual

finance directors. It needs concerted leadership at the political level to create the right market conditions, effective mechanisms to encourage savings, and policies to tailor investment towards social and ecological goals. But it also requires the transformation of reporting frameworks and ways to capture the value of ecological investment. It demands in short, once again, the engagement of accountants.

And so, Your Royal Highness, Ladies and Gentlemen, whether or not we can ultimately achieve prosperity without growth, I hope I've shown that a different kind of economics is not only possible but essential. And that this new economics can lead us not to an impoverished world, but to a far more realistic prospect for a shared and a lasting prosperity.

For at the end of the day, prosperity transcends material concerns. It goes beyond chocolate. Strange, I know, but most definitely true. It resides in the wellbeing of our families and friends, in the quality of our living environment. It draws from our trust in the community and our sense of shared meaning and purpose. It hangs on our potential to participate fully in the life of society.

Prosperity consists, in short, in our ability to flourish as human beings – within the ecological limits of a finite planet. The challenge for our society is to invest in the conditions which make this possible. It is, quite simply, I'd suggest, the most urgent task of our times.