



Managing the Economy Sustainably: Securing Life Chances for All!

Discussion Paper

The social market economy has shaped Germany's economic and social systems, and constitutes the basis for prosperity, social peace and ecological progress. The state performs regulatory functions and shapes the parameters for entrepreneurship and private initiatives. Over the last few decades, however, the social and ecological limits of the approach to economic management that has been taken up until now have become clear. Prosperity and quality of life for all can only be fostered over the long term if we gear our daily activities and economic management consistently towards the principle of sustainability. Sustainable development that makes it possible to bring about social improvements and achieve economic progress within our world's planetary limits will secure life chances for both the current and future generations. This will mean decoupling prosperity and quality of life from the consumption of environmental resources, and reducing levels of consumption in absolute terms.

Strengthening the social and ecological market economy

The leading industrialised nations used the final declaration of this year's G7 summit at Elmau to reiterate their determination to set the world on a sustainable development path over the long term. In doing so, they explicitly recognised one thing: if life is to improve for the whole of humanity, economic development will have to be reconciled with climate protection and the equal participation of all members of society.

A social and ecological market economy offers a good framework within which to coordinate economics, ecology and welfare as the different dimensions of sustainability. To this end, it is necessary to conduct serious discussions about the external costs incurred, for example, when fossil energy sources and raw materials are extracted, as well as possible environmental impacts, and how these costs and impacts are to be 'priced in' globally without damaging social cohesion. Sustainable policymaking must tackle this important political task. Appropriate price signals encourage innovation while promoting more economical, more efficient ways of handling scarce resources. Suitable standards for product design allow manufacturing costs to be calculated at an early stage and, at the same time, ecological impacts to be identified in advance. On the whole, products should require a minimum of resources and energy while delivering optimal functionality. The state subsidies paid to the agricultural industry should therefore support the most environmentally and resource-efficient methods of producing foodstuffs.

At the international level, we need a regulatory framework that exploits the opportunities offered by free trade and simultaneously ensures fair trade by guaranteeing human rights are observed, making sure employees enjoy good working conditions all over the world and – as



stressed by the G7 – creating an equitable, modern, international tax system. Germany can and should take on a pioneering role in this field.

Energy and climate protection

Germany has pioneered the development of sustainable energy supplies. The aim must be to configure the generation of energy as a virtually zero-carbon-dioxide process. The transformation of our energy system and the decarbonisation of our energy supply can only succeed with the aid of sustainable technologies such as storage technologies, energy-saving techniques and smart power grids. Furthermore, the power, heat and transport sectors are to be integrated more closely with one another. Generally, Germany should further develop its leading role in the environmental technology sector. It will be best able to do this within a framework that emphasises innovation and consistently reduces levels of subsidy. The solutions offered by German environmental businesses are regarded as technologically innovative and reliable, and there is demand for them in other countries as well. Against this background, we welcome the recognition and promotion of important innovations by initiatives such as the German Federal Environmental Foundation's German Environmental Award and the German Sustainability Award presented by the German Sustainability Award Foundation.

In addition to this, the members of the Parliamentary Advisory Council on Sustainable Development (PACSD) advocate that, as an important element in European climate policy, emissions trading schemes be strengthened by withdrawing certificates from the market. Important steps have been taken to reduce the surplus of CO₂ certificates with two reforms, 'back-loading' and the introduction of the 'market stability reserve'. A structural reform of emissions trading will be indispensable for the fourth delivery phase, which will begin as of 2020. Apart from a clear reduction in the annual caps on emissions, it will also be necessary to extend emissions trading to further groups of polluters. In this context, the way costs are allocated should not endanger the competitiveness of highly efficient enterprises that are competing internationally. The PACSD's members therefore urge the German Federal Government to work for an ambitious reform of emissions trading based on market economy mechanisms, and to argue for demanding EU climate targets. Global CO₂ trading must be the goal over the medium to long term.

Social safeguards

Long-term economic success will only be attained in an intact environment. By the same token, the environment can only be protected effectively if people do not have to struggle for their economic livelihoods and social security. The one is not to be had without the other. This is why both ecological and competitive economic models must be promoted and, equally, the challenges encountered in the world of work addressed socially and in labour law. For gainful employment is a cornerstone of our society, as well as being the foundation for individual life plans and social measures to secure people's livelihoods.

There is largely trusting collaboration between the two sides of industry on the German labour market. It sets the parameters for good-quality work rewarded in line with collective agreements, and secure jobs that enable employees to plan ahead for themselves and their families. At the same time, healthy working conditions and protection from the abolition of laws and regulations are necessary. Workplace codetermination is an important component of



the social market economy because it enriches our country's democratic culture and ensures a positive workplace climate.

Furthermore, a society equipped to deal with the challenges of the future requires well functioning social insurance systems based on the principle of solidarity. The whole population must be protected by social safety nets. Old-age poverty must be prevented and decent care guaranteed in old age. Above all, no society can afford entrenched long-term unemployment. We must do even more in Germany to give everyone access to the labour market.

Exemplary role of the public sector

The public sector must set a good example when it comes to sustainable economic management. As far as this is concerned, the PACSD's members make reference to the forthcoming reform of European public procurement law (Directive 2014/24/EU) and the opportunities it will offer to stipulate that in future ambitious sustainability criteria be laid down in invitations to tender and, simultaneously, to enhance public contracting authorities' legal security. The Advisory Council expects the German Federal Government to exploit these great opportunities across the board.

The PACSD urges the German Federal Government to work for wider application of the German Sustainability Code (*Deutscher Nachhaltigkeitskodex*, DNK) in publicly owned enterprises. The Code, which was drawn up by the Council for Sustainable Development (*Rat für nachhaltige Entwicklung*, RNE), builds on international standards, allows comparisons to be made between different kinds of organisation and is explicitly relevant to publicly owned businesses as well. Only seven of the more than 100 businesses in which the Federal Government holds direct stakes have issued declarations of conformity with the DNK (Federal Ministry of Finance, *Beteiligungsbericht 2014*). In this respect, the public sector in particular must be a pioneer of sustainable development.

Furthermore, an expert legal opinion¹ has shown that the DNK also completely fulfils the content requirements for non-financial information that will be introduced by the EU as of the 2017 financial year (Directive 2014/95/EU). The Directive, which is currently being transposed into national law, provides for businesses to disclose information about environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, and diversity. The PACSD advocates that the Directive be transposed ambitiously and at the same time as unbureaucratically as possible.

Regional economic management – closed substance cycle waste management

Sustainable economic management should begin at the grass roots. In particular, owner-managed small and medium-sized enterprises, and family businesses think in terms of generations and not just in terms of quarterly figures. The PACSD advocates the reinforcement of regional value creation chains because they have the potential to boost a region's economic strength. They can help ensure adequate rewards are on offer for ecological services at the local level, for example those provided by site-specific farming. Such services are delivered by many

¹ Andreas Hecker, *Gutachterliche Stellungnahme: Untersuchung zur Umsetzung der "CSR-Richtlinie" in Deutschland unter Berücksichtigung der Initiative "Deutscher Nachhaltigkeitskodex"*.



actors, including suppliers, producers, transport contractors, wholesalers and retailers, the service sector and training institutions.

Reducing our consumption of raw materials and secondary resources is one of the central challenges of our age, while holding out great opportunities for businesses. As early as the product-design stage, businesses can apply lightweight constructions and miniaturisation to ensure scarce resources are used yet more efficiently. Waste avoidance must be moved even more into the foreground in these approaches, and every product must always be looked at over its whole life cycle. Such measures to increase resource efficiency will have positive effects on security of supply and the reduction of raw materials consumption. Furthermore, increased efficiency will limit adverse impacts on the environment, strengthen the competitiveness of the economy and consequently secure jobs.

The PACSD therefore welcomes the Federal Government's target of doubling the whole German economy's raw materials productivity by 2020 compared to 1994. The PACSD also supports the RNE's target of 100-per-cent closed substance cycle waste management as a means of increasing raw materials productivity. This could allow more recyclable materials to be reused, domestic secondary materials recovered and residual materials disposed of through environmentally friendly channels, with favourable knock-on effects for the competitive situation of many businesses. In consequence, we would move markedly closer to the goal of decoupling economic growth from the consumption of resources.

Shaping the share economy

The shared use of products, services, buildings or knowledge has commercial advantages and is practised in many sectors today. Such approaches range from the hiring-out of little used domestic appliances to the shared use of expensive machinery in agriculture. Digitisation is increasingly offering opportunities for greater competition, value creation and sustainability in this area. Limited resources can be utilised in the best possible way by several people. These methods make it possible for consumer goods to be used in a responsible manner. The PACSD's members urge the Federal Government to set the necessary parameters for fair competition. They include quality standards, tax and liability rules, safeguards for employees' rights and labour standards.