

Reflections on the current financial crisis

Ideas on how to solve the root causes of financial, environmental and societal problems

This “thinking paper” has been developed by CEEweb for Biodiversity. CEEweb is an international network of conservation NGOs active in the CEE region. The mission of the network is the conservation of biodiversity through the enhancement of sustainable development. We prepared this paper in response to the current financial and ecological crisis with the intention to share our ideas on possible solutions. It is called “thinking paper”, because many of the ideas included go beyond the traditional border of our profession - nature conservation - and we need to validate them through discussion with a wider range of experts and professionals. The reason to produce this paper was to share our ideas, but more importantly to receive reflections and comments on it.

We believe that the current crisis can only be solved if NGOs from different sectors (social, economic and environmental) work together to find joint solutions. We hope that this paper is a good tool to start such cooperation.



CEEweb believes that the cause of the current financial, food and fuel crisis is the prevailing values and practices of today's society. These values and practices are primarily shaped by our economic system where financial profit is the main priority. Growth is measured in GDP, while issues of sustainability and social justice are largely ignored in the measure of success.

While most attention is now turned to the financial crisis an environmental crisis is also coming closer. Climate change is the first widely acknowledged symptom, but the loss of biological diversity is predicted to become just as a serious problem. Biodiversity contributes indispensably to human wellbeing through providing the basis for ecosystem services. The food we eat, the water we drink, a stable climate, timber, fiber and natural medicines are all ecosystem services, which we benefit from for our own well-being.

Some researchers suggest that we already use 140 percent of our planet's resources on the long-term, and ecosystems will fail us in the near future. UN Millennium Ecosystem Assessment says that we are degrading or using unsustainably approximately 60% of the main ecosystem services. If the ecosystems surrounding us cannot function properly any more, we will also lose the ecosystem services that were available for us. As usually, the poorest of the world are affected the most.

CEEweb mainly focuses on the conservation of biodiversity, but we have realized that biodiversity and ecosystems cannot be dealt with separately from other sectors like economy. Our Policy Working Group analyzes global trends and holistic solutions. While looking at the current environmental and financial crisis we concluded:

- 1. The drivers behind financial and environmental crises are the same.**
- 2. Current policies mostly leave these drivers untouched and only handle the effects.**
- 3. The crises we face today are inseparably linked. The complex relationships among environmental, financial and social issues are not understood or addressed.**
- 4. To solve problems we need to think holistically and tackle the underlying causes, not the effects or symptoms.**

How did we come to these conclusions?

1. The drivers behind financial and environmental crisis are the same

Climate change is caused by rising CO₂ levels while the financial crisis was caused by speculative financial businesses. So, why do we say these things have the same cause? Let's take a closer look: the direct cause of climate change is truly the increase in greenhouse gases and particularly in CO₂ in the atmosphere. But the unprecedented rise of greenhouse gases is caused through increased traffic; intensified industrial and agricultural production and decrease of natural vegetation cover; in short: increased consumption and production levels. If we go one step further and look beyond we see that increased consumption and production is driven by the prevailing values, trends and structures of society: consumerism, materialism, loss of traditional lifestyle, a wrong economic regulatory framework setting false incentives, monetary system where money multiplies itself through interest, belief in need for constant economic growth, production and consumption patterns with energy and material intensive products and services, population growth, sectoral approach etc. These are the root causes of climate change, while CO₂ increase is the direct cause.

If we follow up the cause-effect chain behind the current financial crisis, we came to the same root causes. Behind speculative financial business is the demand after more profitable financial products, forced and supported consumption of short-lived products and services that are well beyond the necessity to satisfy the basic needs. But the root causes of ever increasing consumption and production are the same as in the case of climate change.

2. Current policies leave the drivers mostly untouched and only handle the effects.

Both in the financial, as well as in the environmental sector decision makers are tempted to tackle the issues with a narrow focus, often at the level where problems cannot be solved. The effect often is the "treatment of symptoms" in form of end-of pipe solutions. Even highest level policies, for example the EU Biodiversity Action Plan target mostly the direct pressures and not the drivers behind biodiversity loss. The result is not surprisingly little success: the EU will fail to reach its 2010 biodiversity target in spite of tremendous effort. CEEweb thinks that problem of biodiversity loss cannot be tackled with biodiversity conservation measures alone¹. Similarly, environmental problems cannot be tackled by environmental policy measures alone, financial problems by financial policies etc. Even efforts for sectoral integration are insufficient in most cases. The reason is that sectoral cooperation mainly focuses on symptoms, but not on causes of problems.

¹ CEEweb assessment on the EU Biodiversity Action Plan 2009 http://www.ceeweb.org/workingareas/policies/Bidi_policies.htm

3. The crises we face today are inseparably linked. The complex relationships among environmental, financial and social issues are not understood or addressed

Already the Bruntland report pointed out that the issues of environment and development are inherently interlinked. We can sometimes hear in the media not just about the financial crisis but also about the parallel existing social or environmental crisis. But there is little thinking on how all these things are connected, how they interact and influence each other and what are the solutions that bring betterment in more than one field. E.g. cheap transportation made possibly through low energy prices has several effects. It causes increased traffic which in turn result in health problems (illness of the respiratory system, asthma); climate change; expansion of road infrastructure – fragmentation of natural ecosystems – biodiversity loss; commuting - abandonment of rural areas – dying countryside; urban sprawl – loss of green areas – biodiversity loss.

The financial and environmental crisis cannot be solved with separate sectoral (financial or environmental) measures alone, as the root causes lie beyond the influence of sectoral policies. The complex nexus of cause-effect relationships which connect environmental problems and socio-economic trends is not sufficiently revealed and thus decision makers come up with solutions that answer only to part of the problem. In some cases the solution found only means the sifting of the problem in space or time, as it is the case with biofuels. (Biofuels try to substitute fossil fuels and eliminate CO₂ emission at the same time. On the other hand biofuel production needs intensive agriculture, which - if done on previous semi-natural areas – will result in increased CO₂ emissions from the soil which might be orders of magnitude bigger than the emissions spared. Also the loss of semi-natural areas is connected with biodiversity loss). We need solutions that acknowledge these relationships and tackle the root causes. CEEweb is actively looking for cooperation with experts from other fields (e.g. social NGOs, economists, researchers) to explore these connections better and to find solutions that benefit most.

4. We need to think holistically and tackle the underlying causes, not the effects or symptoms.

To avoid end-of-pipe solutions, or solutions that only shift the problem we need to think holistically and tackle the root causes. It is very difficult to change something in the world if these underlying values, trends and structures remain untouched. Therefore the most effective way to bring change is to alter them. Then the system would reorganize itself to achieve social, environmental and economic sustainability. We need to examine how the systems of finances, economy and ecology are interlinked. We cannot talk about one without talking about the others. We need to name institutions and mechanisms that created these crises and replace them based on the ideas of sustainability.



CEEweb's recommendations to solve the crisis

Limit resource use

As long as natural resources can be used infinitely, there will be no sustainability and no equity in our societies. Sustainable living means that we use the Earth's resources at a rate at which they can be replenished. At present humanity – especially the so-called first world or the global North – leads an unsustainable life that is exceeding the carrying capacity of the earth. The negative effects of overconsumption are mostly felt or paid for by developing world. Additionally, the energy we use now is impossible to substitute with renewables, there is no such capacity in RES. Only a decreased energy demand can be substituted. Overconsumption of energy and resources could only be stopped by limiting resource use for those who use more than their fair share. In this context the following natural resources should be limited: non-renewable energy, land, water, minerals, biodiversity.

Applying input side regulation to the economy is the only effective way to decrease total environmental pressure. In contrary, output-side regulation, (for example through setting of CO₂ emission limits) tries to tackle the problem from the wrong end. The problems with output-side regulation are the following: 1. it tackles only point-sources and not the huge amount of diffuse sources, 2. only some elements of the environment are controlled, 3. therefore, the pressures will be shifted to other elements, which are not controlled, e.g. biodiversity and green surface.

CEEweb would like to start a debate on using economic measures to limit total energy use in the economy. Currently we are discussing an energy tax or quota system. This should lead to the constant decrease of total consumption of primary and secondary energy on a global scale. The quota system could be applied to the energy production sector, to several industrial sectors and also to individual consumption. The system can be designed in a way that assures fair distribution of energy necessary for the satisfaction of basic needs, while overconsumption would be very expensive. In parallel, income from overconsumption should be provided as interest free loans to individuals/companies for improving the efficiency of heating/cooling and equipment that can be paid back from energy savings.

Expected impacts of this measure would be:

- Fair access to energy that is necessary for the satisfaction of primary needs
- Significant overall CO₂ reductions
- Economy becomes less resource-intensive and more work-intensive > job creation
- Increased security of energy supply
- Change in values: people value nature and resources more

Shift taxes from labour to resources

Tax reform is another way for reducing the use of resources. At present companies are taxed for the labour they employ and they have to pay the state for each employee. The taxation of labour creates a huge pressure on employers and puts employees in a vulnerable situation. The interest of employers is to keep their labour costs and number of staff at a minimum. This system fosters illegal practices and clearly is against long-term and secure jobs. Instead of paying a tax based on *income* (with the rich often avoid by sophisticated methods like tax havens), we should be taxed based on the amount of resources we use. This is especially important in the case of non-renewable resources such as oil, coal, and natural gas. The taxing of resources could result in the following:

- The decrease of labour tax leads to a higher number of legal and secure jobs.
- Decreasing the income tax will lift the burden from the lower and middle classes.
- Instead of machine work manual labour will regain its former importance. Local agriculture flourishes reducing unemployment and stagnation in rural areas. Traditional crafts have a chance to be revived.
- The economy becomes less resource-intensive bringing many positive impacts on the environment, such as the decrease in emissions.
- The lifetime of products increases.
- Companies and people become more energy-conscious.
- People and companies that use more resources will have to pay more while moderate consumers would pay less.
- As natural resources become more precious, technologies get more energy efficient
- Significant overall reduction of CO₂ emissions.

Limit the use of space

An important driver of several environmental problems is the occupation of space by humans, resulting in degradation or destruction of the natural environment. Intensive agriculture with its excessive use of machinery and chemicals affects adversely not only the biodiversity, but also puts small-scale farmers in a competitive disadvantage. Our settlements and coherent infrastructural networks result in the fragmentation of habitats, with only a limited number of species being able to migrate through the artificial barriers.

Natural surface cover provides the highest complexity of ecosystem services. Its climate-regulating role is as important as that of CO₂. Ecosystems regulate directly the micro- and mesoclimate, so providing the best possibility for adaptation to climate change, but are also very significant in the global climate regulation, through their role in water and carbon cycle. The bigger surface is covered by natural or semi-natural vegetation, the more chance we have to conserve biodiversity and natural adaptation capacity. Therefore it is vital for every country to ensure the best possible operation of ecosystem services by saving their natural interactions and structures, which will protect man and nature against climate change even if the limitation of CO₂ level is failed.

Therefore CEEweb recommends limiting the use of space. In special the building-in, destruction or degradation of green areas should be banned and large-scale habitat-rehabilitation programs must be started, setting a clear target, e.g. 10% of a country's area should be rehabilitated and given back to nature with no human intervention by 2012. A mosaic-like, diverse landscape is preferred providing diverse connections between locations of natural habitats. To achieve this, size of the fields should be maximized, and semi-natural habitats should be constructed between them. Payments in agriculture and forestry should not favour intensive farming methods. Owners of land with high ecosystem services should get special subsidies.

Introduce the interest free money

The main force behind the current financial crisis is an ever-growing and accumulating debt. While interest and debt give huge profits for banks, this system of indebtedness has laid pressures on states, companies and individuals alike. At present millions are threatened by the debts they or their governments have accumulated. Some countries, like Hungary, Latvia or Ukraine are threatened by state bankruptcy.

After the financial crisis begun, CEEweb, as many other NGOs has become interested in alternative economic methods and models to see if they could mean a solution to the above problems. Among others, we are looking at the system of interest-free money because we assume it would bring the following benefits:

- The monetary system will not serve the distribution of wealth from the poor to the rich, therefore the gap between poor and rich as well as South and North would narrow down.
- People would accumulate money in bank to a smaller extent.
- Immediate spending will lead to more exchanges and a livelier economy, and would at the same time take the power away from the banking sector.
- Stable economy (stable currency, less speculation, smaller risks).
- Less bankruptcies and therefore less social problems associated.
- No need for financial growth for the sake of growth and for the needless development, done just to be able to pay back the interest. Quantitative growth will stop at an appropriate level, environmental, cultural and social projects will be more "profitable".
- Change of values (less profit orientation, more cooperation and community orientation).

Conclusion

CEEweb believes that in the long term a properly functioning market economy is possible, which is able, by taking a holistic approach, to ensure the sustainable use of natural resources, the good quality of the environment, the coherence of ecosystems, as well as social justice. To achieve this an unprecedented collective effort is needed. By joining the voices of environmental and social NGOs, we can make our message heard. Therefore we would like to invite everybody to critically read and comment on the ideas outlined above; as well as invite interested individuals or groups to join our efforts. We are looking forward to hearing from you!

Contact

Kristina Vilimaite, General Secretary

E-mail: kvilimaite@ceeweb.org

Sarolta Tripolszky, Natura 2000 project officer

E-mail: sarolta@ceeweb.org

Address: Kuruclesi út 11/a, 1021 Budapest, Hungary

Phone: +36 1 398 0135

Fax: +36 1 398 0136

Website: www.ceeweb.org



CEEweb for Biodiversity is a network of non-governmental organizations in the Central and Eastern European region. Our mission is the conservation of biodiversity through the promotion of sustainable development.