

General news

# Speech Klaas Knot - "Towards a sustainable economy"



DNB



**“Sustainable finance is not only about managing financial risks, about stability. Sustainability is also about change. About making better choices for a better world.” That was the message of Klaas Knot in his lecture at One Planet, where he spoke to an audience of mainly students.**

*“Every business, every household, every person can make sustainable choices.”*

**Klaas Knot**

President, De Nederlandsche Bank

**Date:** 14 September 2022

**Speaker:** Klaas Knot

**Location:** Museum One Planet, The Hague

As an economist and a central banker, I have a soft spot for models and scales. A very interesting scale is the geological timeline of our earth, our *One Planet*. It is the timeline scientists use to divide the history of the earth – an impressive 4.5 billion years – using geological epochs and aeons, eras and ages.

For the last 11,500 years, the earth has been in the Holocene Epoch. Holocene means: entirely new, and symbolises the ‘entirely new’ world after the last ice age. Since then our planet has changed rapidly and significantly, mainly at the hands of a minor blip on the scales: the modern human race.

A species that has only been around for a negligible 200 thousand years but that has a footprint no dinosaur ever dreamed of.

In those 200 thousand years we have fundamentally altered the physical, chemical and biological systems of the planet. Systems that not only humans, but all other organisms depend on: we have changed the earth according to our needs... That is why there is a big debate among scientist to start referring to this epoch as the Anthropocene: the time of the new humans.

Yes, that sounds nice: an epoch named after us...

But it is really not something to be proud of. Because the changes we implemented are causing global warming, huge carbon dioxide and nitrogen emissions, deforestation

causing global warming, huge carbon dioxide and nitrogen emissions, deforestation, wildlife extinction and other systemic changes. Changes we caused by using natural resources as if they were endless, as if they were just for us, as if they were free... Changes we caused because we made choices, and we always chose for our needs, our wishes, our moment. We made choices that were unsustainable.

That has to change.

We have to change.

Or more precisely: we have to make other, better choices.

That was also the conclusion we reached in my first year as President of the Dutch Central Bank in 2011. During a teambuilding weekend at sea we, my colleagues on the Executive Board and I, decided that our policy as a central bank and as a financial supervisor should focus more on prosperity and hence, sustainable finance. We decided that we would choose to emphasise the *long* term instead of the short term. To look beyond financial welfare to well-being, to look beyond mere economic growth to inclusive, sustainable growth. Eleven years ago, that was – if I may say so myself – a bold decision, because sustainability was not mainstream, not on every agenda.

But what could and can a central bank do to help save our One Planet?

In the debate about the naming of our epoch, one of the main questions among scientists is: what was the starting point of the Anthropocene? Industrialisation? Or even earlier, when humans started farming? Or was it 1945 when the first atomic bomb was dropped? There are of course other possibilities... Like the invention of money or banking, even if, according to Lana del Rey 'money is the reason we exist'... No, I think I would opt for the Enlightenment.

That period, that intellectual movement in the 18<sup>th</sup> century, was the starting point for the intellectual – and actual – emancipation from authority and dogmatism. It was the glittering threshold towards modernisation, individuality, secularity and globalisation. It was the start of free thinking and free will.

The age of reason and the age of choices. And that makes it – in my opinion, the defining period and starting point of this epoch. Because making choices is what brought us where we are today.

And, more importantly, making choices will bring us where we have to go tomorrow and beyond.

We must make better choices.

Not for our moment, but for our future, for the next generations.

Not later, but now.

And we all have to play our part, to do what we can to save our planet.

So, what are the choices the financial sector can, or has to make?

What part can DNB play?

Recent climate scenario analyses and stress tests conducted by financial authorities around the world conclude that the global economy and financial system will face significant risks if the transition to a low-carbon economy is delayed or disorderly. Risks that include floods, droughts and storms as a result of climate change. Risks that can have social and economic consequences, because money does make the world go round, as we saw again during the financial crisis. It is therefore essential that DNB, as guardian of financial stability, ensures that financial institutions are prepared for those risks.

But sustainability risks exceed climate risks. For instance, they also include nature-related risks such as biodiversity loss.

Two years ago, together with the Netherlands Environmental Assessment Agency, we published a report entitled 'Indebted to nature', on the impact biodiversity loss can have on the Dutch financial system. In that report, we showed how the financial sector, via the economy, is dependent on the services that nature provides.

For example, certain crops depend on bees for pollination. If those bees disappear, harvests will be affected and companies can suffer a loss. A loss that can impact the banks, or other financial institutions, that have invested in them. Dutch financial institutions alone face a worldwide exposure of more than 500 billion euros in activities that are highly dependent on nature.

'Indebted to nature' also shows that the three largest banks in our country have lent more than 80 billion euros to nitrogen-intensive sectors in the Netherlands. Policies to reduce nitrogen emission – however necessary they are – can pose risks to these investments.

We must deepen our understanding of these financial risks if we are to protect the financial system. This is important to maintain stability, and stability is important to help our economy, our society to navigate a sustainable transition. The need for a sustainable transition is also on our minds when we seek to ensure the sustainability – and therefore stability – of our payment systems, monetary operations or even our own investments as a central bank.

But sustainable finance is not only about managing financial risks, about stability. Sustainability is also about change. About making better choices for a better world. That is why DNB is at the forefront of the debate about what it means, and what is necessary, to make better choices. Nationally and internationally. As David Attenborough said during the Climate Summit in Glasgow: "If working apart, we are a force powerful enough to destabilise our planet, surely, working together, we are powerful enough to save it."

Yes, saving the planet is a team effort.

And we will play our part.

By conducting research, by incorporating that into our economic advice and by working to improve the data that help us to make better choices.

But we are not the leader of the team. The leader is, or should be, our governments.

Nationally and internationally. They have to develop and enforce a clear climate policy.

They have to take the responsibility to enable and inspire the better choices we must all make.

Choices to stimulate sustainable growth. Yes, growth. Because, let me be clear about this: I am not a degrowther. I sincerely believe that growth and green are not mutually exclusive.

And we need growth, because growth will ensure that nobody will be left behind.

Growth will pay for our social security system, for better housing, for a diverse and inclusive society. But not random, unrestrained growth: Adam Smith's invisible hand is not necessarily a green hand. Choices will have to be made. As the title of the government-commissioned report on the nitrogen crisis declared: not everything is possible everywhere.

Tough, major choices will have to be made: between intensive farming and nature, between fossil fuels and green energy, between mainport Schiphol and 'air'port Schiphol...

I was amazed to learn that our country is in the top ten of the biggest exporters of turkeys, while growing turkeys is a major source of nitrogen emissions, and to be honest: we don't really like eating them ourselves... Why not incentivize such industries to relocate to a region with a nitrogen deficiency?

To make sustainable choices we need a clear government policy on climate change: on how it can be done and how we can do it together. How everybody can make better choices.

Not only by stimulating green technologies or implementing price incentives for consumers.

But, even more importantly, by changing people's minds and behaviour. By encouraging and inspiring people and businesses to think and act differently, to make different choices. Because a big transition can be brought about by small changes, by individual choices.

This museum has a very interesting exhibition to show us what is possible: making clothes from waste, using discarded vegetables, eating insects, building houses with mushroom blocks and even making 'tea with pee'.... Very interesting!

We are not using mushroom blocks in the renovation of our headquarters building – at

least as far as I am aware – but sustainability is key in our choices: in the choice of materials and in the choice of solutions for energy consumption. For example: we made the old concrete carbon-neutral by injecting it with CO<sub>2</sub>. That is a world-first. We will also have a lot of greenery in and around our building, and up on the roofs. We will place nesting boxes and insect hotels in those green areas. These features will help our building contribute to biodiversity, right in the heart of hotspot Amsterdam.

Every business, every household, every person can make sustainable choices.

Yes, that means all of us, all of you. Together we have to make sure that the Anthropocene epoch will not become the last one.

What we need is an open mind and a sense of urgency. What we need is a Green Enlightenment.

An age of green reason and green choices. We cannot leave that to the power of the *invisible* hand.

I want to see **real** hands...I am in.

Are you?

Thank you!