Far from being a drag on growth, environmental policy can actually help drive it

by Blog Admin

Michael Jacobs *argues that green growth speaks directly to the economic priority of governments. Environmental policies, as well as tackling environmental costs, can address other market failures which inhibit growth, help boost aggregate demand, stimulate employment, and drive innovation.*

Over the past four years the concept of 'green growth' has burst onto the international policy scene. A term rarely heard before 2008, it now occupies a prominent position in the international policy discourse. The last two G20 Summits declared their support for this goal. The World Bank, the OECD and the UN Environment Programme are all now committed to it. A new body, the Global Green Growth Institute has been created to advise governments on its implementation. A whole panoply of green growth networks, forums and 'knowledge platforms' has sprung up.

Why? After all, the core meaning of the concept of green growth – a path of economic (GDP) growth in which the environment is protected, not degraded – is not new. The same idea lay at the heart of the discourse of 'sustainable development', which after its original appearance in the 1987 Brundtland Report and 1992 Rio Earth Summit became the dominant discourse of environmental policy making.

The answer is that the concept of sustainable development has had decreasing traction over recent years. Following the 2008 financial crash, governments have been focused almost entirely on boosting economic growth; in this context, any policy which did not contribute to that goal was downgraded in influence. The discourse of climate change policy looked particularly unattractive: it referred to the global 'burden' of emissions reductions and seemed to present policymakers with a lot of present economic costs and only distant future benefit.

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By contrast green growth speaks directly to the economic priority of governments. It makes a bold claim: so far from being a drag on growth, environmental policy can actually help drive it. It is a controversial assertion. But it is justified by its proponents through three different kinds of economic theory and evidence.

The core argument for green growth is based on standard growth theory. Output rises when the factors of production (labour, technology and resources) increase in size or productivity. The natural environment is also a factor of production, but because it is largely provided by nature for free, it is subject to market failure. Natural resources tend to be over-exploited, ecosystems degraded and wastes produced inefficiently. If these systematic market failures were corrected, it is argued, growth might be higher. In developing countries, both UNEP and the World Bank have provided impressive evidence that conservation and enhancement of natural capital (such as soil quality, fisheries and forests) can not only raise productivity and generate growth, but also reduce poverty.

In developed countries the green growth focus is on the way in which environmental policies, as well as tackling environmental costs, can address other market failures which inhibit growth. Well-designed environmental policies can improve the efficiency of energy and resource use; increase investment in productivity-improving activities such as R&D and the creation of economic networks between firms; generate co-benefits such as health improvements; and improve the efficiency of the tax system through the use of environmental taxes. In all these ways, environmental policy can move the economy closer to an optimal growth path.

If this is the basic theory of green growth, its most immediate application has been a Keynesian one. In the present slump, the green Keynesians argue, governments should sustain aggregate demand through public expenditure. This does not have to be green, but the huge employment opportunities available in fields such as clean energy, water quality improvement and public transport make a 'green stimulus' an obvious focus. Indeed, almost all countries which introduced fiscal stimulus packages in 2008-09 included within them significant green programmes of these kinds.

Today most of these stimulus packages have been removed, and in Europe they have been replaced with austerity. But this has merely given advocates of green growth further ammunition. In the UK and the EU they highlight the opportunity to stimulate growth now through investment in low carbon energy and energy efficient infrastructure, thereby generating both short-term employment and long-term productivity improvement. With UK interest rates at record lows, and the chance for the European Investment Bank to issue EU bonds backed by the European Central Bank, green growth proponents point out that this is precisely the time that such investment should be made.

The third kind of green growth argument takes a more structural view. Environmental policy creates innovation. It forces the development of new environmental technologies and services. With 28 million people now employed in the global environmental industries sector, this has led some green growth advocates to predict that such innovation could drive a 'third industrial revolution' in the same way as previous technological advances such as the internal combustion engine and ICT did in the past. Environmental and resource efficiency could then become the motor of a new 'long wave' of economic growth. But – other advocates warn – this may only happen if governments adopt the role of an 'entrepreneurial state' to guide investment into the necessary innovations and infrastructure.

These arguments are now being played out in the corridors and journals of economic policymaking. But it is not just theory: the environmental industries sector is beginning to lobby for environmental policy around the green growth argument. And on the other side the fossil fuel and resource-intensive industries are seeking to diminish their claims. The battle for green growth is just beginning.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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