Blog

**Does Green Growth make economic sense? Yes, but you have to do it right.**

Last week in Mexico City the launching conference took place of the [Green Growth Knowledge Platform](http://www.greengrowthknowledge.org), established by the [Global Green Growth Institute](http://www.gggi.org), OECD, UNEP and the World Bank to try and improve the sharing of relevant knowledge on what green growth is, whether it makes economic sense and how to implement it. Green Growth is the newest incarnation of the Development First approach described in my book in [chapter 4](http://www.controllingclimatechange.info/book-contents/).

At the official signing ceremony a series of high-level speakers made strong statements about the need for and the potential of green growth. The Mexican Minister for Environment and Natural Resources, the Deputy Minister of Finance and the chief presidential advisor all made clear that Green Growth is the way to go for Mexico. This is very much inspired by president Calderon, who has made Green Growth one of his key priorities. Green Growth is seen as essential to improve Mexico’s competitiveness. It already drives investments in waste management and wind energy. A commitment is made to reduce greenhouse gas emissions to 30% below the business as usual levels by 2020. A new Centre for Sustainable Economy and Development has been established. A comprehensive Green Growth Strategy is being developed. When Mexico hosts the [G20 meeting](http://g20mexico.org/en) in June of this year the topic will be high on the agenda. In private a Mexican NGO representative pointed out however that the Mexican government is not making the necessary choices yet. In addition to green policies and initiatives the “old” policies such as building more roads and maintaining fossil fuel subsidies are maintained.

The OECD Secretary-General Angel Gurria, referring to the [OECD Green Growth Strategy](http://www.oecd.org/dataoecd/37/34/48224539.pdf) that was agreed upon last year said “Green and Growth can and must go hand-in-hand”. This is a major change in the OECD’s economic thinking. As afoolow-up OECD recently published the [Energy and Green Growth study](http://www.oecd.org/dataoecd/%2037/42/49157219.pdf) and soon will issue the [2050 Environmental Outlook](http://www.oecd.org/document/11/0,3746,en_2649_37465_49036555_1_1_1_37465,00.html#News_Release). The messages from that work are: quality of life will deteriorate if we continue on a business as usual path and economic growth will be lower than in a Green Growth scenario. OECD’s policy recommendations for a green growth strategy are: don’t delay action in climate,

because it will be extremely costly; get the prices right; complement that with regulatory policies where price signals are ineffective; avoid investments that lock economies into a high carbon state (cities, infrastructure, electricity supply); invest heavily in R&D and a good innovation climate; and make the labour market as flexible as possible to accommodate the changes that need to happen.

The conference then moved to a discussion on the fundamental question if anything like Green Growth really exists. Geoffrey Heal from Columbia University presented an [overview paper](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/12/07/000158349_20111207171314/Rendered/PDF/WPS5872.pdf) that tries to answer that question. The basic conclusion is: “Green policies can indeed lead to as much growth (i.e GDP increase) as traditional policies, but you have to do it right.” Economic theory supports this for three reasons: (1) all economies are in a sub-optimal state, so increasing efficiency through green policies is possible; (2) green policies can enhance the natural capital or the knowledge (green tech) that can lead to higher growth; (3) green policies can increase the optimal growth possible by creating a structurally higher rate of innovation. In addition to this it is obvious that welfare can benefit greatly, because environmental and climate damage can be avoided. Implementing green policies to maximise growth and avoid negative effects is not easy however and, if not done correctly, growth can suffer. The recipe for the right green policy package is similar to what OECD is now recommending (see above). In practice the political economy often leads governments not to follow the optimal policy approach, but to satisfy the vested interests at the same time as introducing green policies. Then growth can easily suffer. The rest of the conference moved to a more specific discussion of the question how this green growth potential can be realised.

In a discussion on the transportation sector it was made clear that green transportation policies can have real economic benefits by reducing congestion and air pollution and increasing mobility. However, in practice rational transportation policy is rare, because governments “manoeuvre” the political economy to get re-elected. A [paper by Jose Gomez-Ibanez of Harvard University](http://www.greeengrowthknowledge.org/pages/events.aspx) explains this very well on the basis of experiences in Ho Chi Minh City, Jakarta and Mumbai. There are additional barriers to green transportation solutions, such as the way infrastructure options are being compared economically, that disfavour green solutions.

The issue of international competitiveness and trade is often seen as a major obstacle to green growth. It is then assumed that green production in tradable goods is seriously limited by the risk of leakage and relocation of industries. A thorough evaluation of the literature however learns that this is not the case. A [paper by Brian Copeland of the University of British Columbia](http://www.greengrowthknowledge.org/pages/events.aspx) showed that polices to get to clean production in the tradable sector in OECD countries have only a small negative effect on competitiveness and relocation of industries. There is no evidence that shielding the tradable sector helps overall economic growth. In the same vain the idea that “pollution havens” are a good way to stimulate growth has not been confirmed by studies. Weak environmental policy is not leading to a growth bonus. For cases of green policy to prevent natural capital depletion (such as deforestation) the findings are slightly different: in the short term green policies will lead to economic loss, but in the long term this is reversed. In case of global goods such as forest the way to overcome these short-term economic losses is to get compensation for maintaining the natural resource in the form of payment for environmental services.

Employment is a key issue in evaluating the benefits of green growth. Green and renewable energy policies (wind and solar energy, energy efficiency) can create additional employment, because the activities are more labour intensive than adding large scale centralised fossil fuel power stations and to a large extent require local labour. If this would lead to closing local labour intensive coalmines however, net employment may not change much. This was more or less the conclusion of the debate on green growth and employment: green growth can create new jobs, but it will not solve unemployment altogether. See also the [paper of Alex Bowen of the London School of Economics](http://www.greengrowthknowledge.org/pages/events.aspx). Another [paper by Stefan Dercon of Oxford University](http://www.greengrowthknowledge.org/pages/events.aspx) warns that specific attention is needed to make sure green growth will not make the poor worse off, even if their living conditions may improve. Green policies generally lead to higher prices for energy and water (incorporating the externalities), which is good for a greener economy, but would require compensation for poor people. Green growth may also lead to loss of unskilled labour that poor people often rely on, so that additional efforts are required to train poor people.

Particularly interesting was a session on behavioural economics, i.e. on the question how people can accept the change necessary for the transition to a green economy. A nice overview was given by Elke Weber of Columbia University (see the [paper by Weber and Johnson](http://www.greengrowthknowledge.org/pages/events.aspx)) of the lessons that can be drawn from psychological research into human decision making. The research clearly shows that humans seemingly do not follow rational economic arguments. “Green” decisions may be economically attractive, but that does not mean people will agree with them. But using the insights from research on human decision-making it can be explained why that is the case. People have for instance a limited attention span, they have difficulty comparing different options if these differ in many respects, they heavily discount things that happen in the future (such as long term benefits), they are sceptical about new technologies in general, they are influenced by emotions (certain words often have a negative connotation). So it should be no surprise that seemingly attractive choices for green policies are not embraced. Human beings however also have a natural desire to do “good”. Turning these insights around tells us that strategies to get general acceptance of “green” decisions or behaviour should simplify choices (by making the green alternative the default, presenting the choice as simple as possible), avoid negative connotations (by choosing the right wording), create trustworthy references (by using celebrities declaring their support), building in elements of doing good and competition (how low can I get my energy consumption compared to my neighbours?) and using rule-based approaches, such as building codes.

There is still a lot to learn on how to design and implement green policies without sacrificing growth, particularly in developing countries. However, there is a solid basis to start making the transition to a green economy now.