BETTER POLICIES FOR BETTER LIVES

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FORUM BACKGROUND NOTE

NEW SOURCES OF GROWTH: GREEN YOUR LIFE

GENERAL INTRODUCTION FOR SESSION

In the 20th century the world population grew 4 times, economic output 22 times and fossil fuel consumption 14 times. The resilience of a wide range of environmental systems is now being tested by the requirements of a rapidly growing global population and increased levels of economic activity.

Thus the world faces twin challenges: expanding economic opportunities for a growing global population; and addressing environmental pressures that, if left unaddressed, could undermine our ability to seize these opportunities. Green growth is where these two challenges meet.

Greener growth is essential for a lasting recovery from the economic and financial crisis. But what does green growth mean? It is about fostering economic growth and development while ensuring that the quality and quantity of natural assets can continue to provide the environmental services on which our well-being relies. It is also about fostering investment, competition and innovation which will underpin sustained growth and give rise to new economic opportunities. And it means putting in place the policies to help achieve concrete, measurable progress at the interface of the economy and the environment.

Greener growth means safe, sustainable sources of energy that are affordable and available for countries at all stages of development. It means innovation and investment in new technologies and in the education and training to enable people to acquire the skills needed for the new jobs they create.

There are two broad sets of reasons to believe that a green growth strategy will contribute to sustain growth in the future.

Firstly, it can open up new sources of growth through:

- better management of natural assets (for instance by reducing waste);
- new innovative ways of addressing environmental problems (recycling, biotechnology etc);
- public policies on major environmental issues that strengthen investors' confidence in green technologies, goods, and services and shift consumers towards more environmentally-friendly behaviour (rewards for recycling, penalties for increased waste);
- ensuring the tax mix is environmentally-friendly and supportive of recovery and sustained long-term growth.

Secondly, it can prevent future shocks to growth caused by negative impact of economic activity on the environment: without a green growth focus, damage to the environment can outweigh the economic advantage of an activity in the short or long-term – pollution by industrial waste that renders land unsafe for agriculture, for instance.

PANEL 1: LESSONS FROM SUCCESSFUL GREEN GROWTH REFORM

Many countries around the world have already undertaken or are pursuing initiatives to achieve greener growth, which can offer an idea of what works and what does not, particularly in terms of winning support and buy-in from various stakeholders. The EU emissions trading scheme. Green tax reform in Germany. Carbon taxes in Sweden. Biodiversity preservation in Guyana. Norway's financing of large scale forest preservation projects in Indonesia. Water markets in Australia. India's efforts to use solar power to bring electricity to 400 million people still without it. These are all examples of policies which can help to underpin green growth. Can they be replicated? How important is it that they are replicated internationally? How can these sorts of initiatives be scaled up, and combined with more conventional economic policy as strategies for green growth?

Replicating the practice of other countries is not a silver bullet. Green Growth strategies need to be created from the bottom up. Just like more conventional growth strategies they will depend on the economic and social conditions of individual countries and the values and preferences of people in those countries. Just as tax policy differs across countries, we can also expect green growth policy to differ across countries. This self-selecting unilateral approach can yield dividends. Denmark, for example, has become a leading producer and exporter of wind turbines, creating jobs at home and abroad and providing renewable energy; despite the absence of a global or harmonized price on carbon.

But how far can we go taking a bottom-up approach? Inevitably different policy settings across different countries causes concerns about competitiveness and claims about jobs, investment and even pollution moving offshore. This is, of course, not peculiar to green growth. Attracting investment, producing jobs and building competitiveness are constant economic concerns. However, it is a major hurdle to green growth.

1. *At what point is international cooperation an essential part of green growth?*

The examples raised above suggest that, in many countries, policy makers have been able to overcome coordination issues. Yet, very few have seen major institutional change in terms of truly merging economic and environmental policy making.

2. *How essential is it for economic and finance Ministries to take the lead on green growth? How can this be done?*

One of the themes in successful reform efforts is getting non-governmental stakeholders on board. This means involving business and community groups at the outset, and being clear about policy objectives and options. Indeed business are increasingly taking a lead on Green Growth, working in partnership with governments, and demanding greater policy predictability and longer term thinking from policy makers. Yet, while companies often say they like certainty and level-playing fields, many still spend time lobbying for special advantages and exceptions.

3. *To what extent should governments rely on business to lead the way on Green Growth?*

PANEL 2: STIMULATING CHANGE IN BUSINESS PRACTICE AND CONSUMER BEHAVIOUR

"We have to change our behaviour if we want to move to a more sustainable environmental path. From the biggest companies to the smallest households, we each must do our part. (…) enlightened public policies will help people make the right choices – they will go 'green'." (OECD Secretary-General Angel Gurría)

How to stimulate change?

But how to move from theory to practice? How to persuade companies to switch to greener production of greener goods, with more recyclable and renewable components? How to persuade people to walk, cycle or use public transport more and drive less? Changing the type of light bulbs we use is one thing, changing the way our economies work is quite another.

Generating significant shifts in economies requires a shift in patterns of investment and patterns of consumption. Designing policies to do this is a challenge for policy makers. The scale of change needed in investment flows and business behaviour is not trivial. Of the 91 trillion dollars of investment capital in the global bond market a trivial 0.012% is currently in "green" bonds. There is clearly a need for incentives which make it more attractive for investors to shift capital to green infrastructure projects, low-emission energy sources, and smarter transport systems.

Policy which focuses on altering prices in the economy can do a lot of the work in this regard: penalising pollution and boosting profitability for green investment and more efficient and innovative firms. These policy tools are a favourite with economists, for their cost effectiveness and capacity to align multiple (e.g. fiscal) policy objectives, but not so loved by the populace at large and consequently often not well liked by politicians.

1. *What are the limits to price based policy in stimulating changes to business practice?*

Facilitating consumer behavioural changes is also going to be important. Here there are a lot of options. Price-based incentives are useful to encourage energy and water savings. OECD research shows households charged for their consumption on a volumetric basis consume approximately 20% less water than those who are not charged. In addition, they are more likely to install water-efficient equipment at home. These kinds of measures can usefully be complemented by provision of public services which help give consumers the choice to consume differently. Of course, with many options to choose from and some more effective than others, prioritisation is in order.

2. *What are the most "urgent" changes in behaviour patterns that should be stimulated by relevant policy instruments?*

Stimulating change does not, however, only mean introducing new policies. Green growth gains can be captured by reforming high cost policies, like some energy and water subsidies, and through broad framework policies that mutually reinforce economic growth and the conservation of natural capital. Included under this heading are core fiscal and regulatory settings that, if well designed and executed, maximize the efficient allocation of resources. This is the familiar agenda of economic policy with the added realisation that it can be as good for the environment as for the economy. To these settings should be added innovation policies that place a premium on the inventiveness that is needed if we are to use natural capital much more sparingly.

3. *How far can fixing policy failure take us?*

Whatever policy choices are made, green growth, like any growth process, will engender change. There are winners and losers. In the long-run society as a whole will be better off. But in the transition some people will face costs. In the case of labour market adjustment, addressing these costs is an essential part of the green growth process. Increased long term unemployment, for example, is certainly not conducive to long term growth.

4. *What can be done and how far should we go to ensure that as many people as possible capture opportunities from change, without preventing the kind of dynamic transformations essential to green and growth?*