Green growth

This brief summarizes key messages of the World Bank's flagship report on green growth that is to be released in April.

Why "green growth"?

Current growth patterns stand in the way of sustainable development and the triple bottom line. Unlike economic growth and social achievements, which are widely recognized as being complementary, growth and environmental sustainability appear to be antithetical. For the last 250 years growth has largely come at the expense of the environment. And environmental damages are reaching a scale at which they are beginning to threaten both growth prospects and progress achieved in social indicators.

"Grow dirty and clean up later" is not an option. The argument that poor countries should focus on satisfying basic needs rather than on the environment is misleading. First, clean air and water and solid waste management *are* basic needs and many environmental policies enhance income generation and poverty alleviation. Second, environmental performance does not automatically improve with income (this is only true of local and "visible" environmental goods such as local air quality). Third, it may be impossible or prohibitively expensive to "clean up later", either because of the irreversibility of environmental damages (e.g. loss of biodiversity), or because of economic and technological lock-in. For example, choices developing countries make now about urban form and density will be largely irreversible, as evidenced by American urban planners' current struggles with the implications of sprawl.

Greening growth is necessary to achieve sustainable development. Green growth is economic growth that is environmentally sustainable.[1] It is not a new paradigm, but aims to operationalize sustainable development by reconciling developing countries' urgent need for rapid growth and poverty alleviation with the risks of lock-in and irreversible environmental damage. As such, green growth policies need to focus on what is required in the next 5-10 years to sustain robust growth without locking economies into unsustainable patterns.

Is green growth feasible and affordable?

Current growth patterns are not only unsustainable, they are also deeply inefficient. Both economic theory and empirical evidence show that addressing the many market and governance failures that plague our economic systems makes it possible to grow cleaner without growing slower. Urban sprawl and congestion are not just bad for the environment they also make cities less efficient, workers less productive, and have immediate public-health impacts. Mass reforestation of China's Loess Plateau was associated with both significant increases in local incomes and improved environmental conditions

[1] The new Environment Strategy defines green growth as growth that is efficient, clean and resilient: efficient in its use of natural resources; clean, in that it minimizes pollution and environmental impacts; and resilient in accounting for natural hazards and the role of environmental management and natural capital in preventing physical disasters.

(locally and regionally). Greening growth entails trade-offs and upfront costs, but also co-benefits and efficiency gains.

Much of green growth policy is good growth policy. It is about getting prices right and fixing markets, addressing coordination failures and knowledge externalities, and assigning property rights. As "natural capital", the environment is an input into the production function. Like other forms of capital, it requires investment, maintenance and good management if it is to be productive and fully contribute to growing output and prosperity. There are plenty of ethical and cultural reasons to protect our environment. But it is also good economics.

However, green growth policies are no substitute for good growth policies. A recent WB study examined the potential of green growth policies to create jobs in South Africa. It concluded that while the idea of developing green industries (e.g. solar power) was appealing, it had little chance of succeeding unless structural problems, such as regulatory obstacles to SME creation and the lack of skilled workers, were addressed. Green growth is no panacea despite much rhetoric to this effect.

Green growth is affordable and need not destroy jobs or harm the poor. Investments needed for adaptation and mitigation of climate change are relatively modest, totaling some 0.5 percent of global GDP annually. No equivalent macro level estimates exist for other environmental problems, but a well-established literature shows the impact of environmental regulation on firm productivity, competitiveness and jobs to be modest and sometimes even positive, thanks to induced innovation. Lessons from other transitions (e.g. trade liberalization) show that good policies and well designed social safety nets reduce human and economic costs.

The real challenges of green growth are governance failures, entrenched behaviors, and financing constraints. Greening growth requires governments to do a better job at managing market failures. As such it implies better government and is highly vulnerable to governance failures. It also entails careful management of the political economy of reform. Given that many of the needed actions are not taken, even when they are cost effective (e.g. energy efficiency), more efforts at social marketing and "nudging" will be important to influence behaviors. Finally, green investments typically require higher upfront costs, though these may be recouped later (no till/low till agriculture, sustainable fisheries, green energy) so the financing constraint has to be understood as primarily an issue of *access* to capital. Rather than relatively limited net new resources, innovative financing products are needed to address capital constraints.