

Keynote Address to Ministerial Roundtable on the Green Economy
Governing Council of the United Nations Environment Program

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The Green Economy: An Economist's Perspective

Your Excellencies, Ladies and Gentlemen:

I am honored to address you today on this very exciting topic, the green economy, especially in the context of the upcoming Rio+20 conference.

UNEP has done a lot of very important work on the green economy, and I feel fortunate to have been able to contribute a bit to the work on the Global Green New Deal, the Green Economy Report, and the recent UN interagency report on the green economy. You are all familiar with these documents, so I will try to situate the green economy in a somewhat broader policy context, using my perspective as a professional economist

Essentially, I wish to make three basic points: First, the advantage of the green economy approach is that it explicitly seeks to bridge the divide between the environmental and the economic policy building on the strengths of the market-based economy. But there needs to be a “level playing field” between “green” and “brown” if market forces are to generate desirable environmental results. For this, a well-informed and coherent public policy is essential, especially fiscal policy.

Second, an effective transition to the green economy requires a greater degree of coherence across all dimensions of public policy than has hitherto been the case. This will require overcoming considerable forces against change. To do this, the advantages of the transition must be convincingly demonstrated, not only in environmental or ecological terms, but also in social and economic ones. At the same time we need to have credible answers as to how the costs and frictions of the transition will be dealt with.

And third, the transition to the green economy needs to be supported by a more coherent institutional framework. Better ways of co-operating and of measuring progress must be found that will encourage the necessary degree of policy coherence at the national and ultimately at the international level.

What Role the Green Economy?

The most potent arguments against policies for environmental sustainability have always focused on their supposedly negative impact on growth, jobs, and living standards. This perception of a negative tradeoff is mistaken, and we need to change it. The power of the green economy approach is that it does exactly that.

The causal links between our present patterns of production and consumption and the degradation of the environment are quite clear. The very success of the process of globalization in accelerating global growth and raising global demand has made increasingly evident the long-term unsustainability of our present economic structures.

But there is also growing recognition that different patterns of growth are possible; that these alternative patterns can also generate good, decent and sustainable jobs; and that the quality of life and living standards should be assessed in terms that are broader than the tradition focus on per capita income levels.

The Green Economy shows how these different patterns of growth and employment can be pursued within the framework of the market-based economy that has served us all so well. It demonstrates that it is possible to use market mechanisms, new technologies, and the rising awareness of the need for action to change these unsustainable patterns of production and consumption without coercion, without an overall loss of economic performance, without a net loss of jobs, and without a decline in living standards.

Public policies for a level playing field

The problem to date is not the lack of awareness, or the lack of feasible alternatives. It is, in large part, the lack of a level playing field between the existing brown patterns of production and consumption and more sustainable green ones. Much of this is due to the problem of externalities, that the true costs of existing production and consumption patterns are not reflected in their market prices. This is where public policy comes in, and much of that policy will be fiscal.

The full-cost pricing of all economic activities, which internalizes the externalities and levels the playing field, allows more sustainable approaches and technologies to compete with existing ones on an equal footing, based on price. This will not automatically make the more sustainable alternatives cheaper. But it will increase the relative price of environmentally harmful

activities, and make the green alternatives much more attractive, thus encouraging their deployment at scale, and eventually lowering their relative prices. Coupled with the appropriate use of regulations and legislation and a pro-active policy of raising consumer awareness through information and education, individuals and businesses will be better able to make sustainable choices that are fully consistent with the workings of the market and result in a efficient yet sustainable allocation and use of finite resources. An explicit policy of education for sustainable development, such as supported by UNESCO, can contribute to the longer-term changes in individual behavior that will be necessary.

Governments can and should affect the market prices of unsustainable activities through their tax and subsidy policies. Many already do. The most obvious candidate for this treatment are fossil fuels. The taxation of carbon and the removal of perverse energy subsidies will do much to level the playing field for alternative and renewable energy. Well-designed carbon taxation motivates producers and consumers to exploit all available opportunities to reduce the incidence of the taxes, and so can be very effective in reducing carbon emissions. The redirection of some of the existing energy subsidies to support these alternatives can hasten the process. We know a lot about how such taxes should be designed, and how subsidy policies should be reformed. But the problems with this approach are large—vested political interests must be overcome; setting the external costs of carbon correctly is not an easy undertaking; and the revenues generated will be subject to many competing claims, especially in the present context of high public debts and deficits as a result of the global crisis. But it is possible, as the experience of many countries shows.

“Green” public procurement can help to create and expand reliable markets for green products and encourage private investment in these areas. “Green” public investments will be required in many areas to frontload the necessary infrastructure and enable private investment in green technologies. Reliable markets, and credible, predictable fiscal policies, and consistent regulations and legislation will all encourage the private sector to make the transition to green. Public policy can also influence private decisions on financing this type of investment.

None of this is new. The problem of market failures and externalities has been a staple of public finance theory for decades. The IMF itself has done considerable work over the past ten-fifteen years in the area of environmentally-related fiscal policy—fiscal tools that could be put to use for environmental objectives. It remains difficult to define environmental objectives in economic terms, but once this is done, adjusting fiscal and other aspects of public policy to support the green economy is entirely feasible. What remains, is the political challenge and the will to act nationally and at the global level

I would note at this point that the examples of public policy that I have mentioned are for the most part a redirection of existing policy instruments. They do not require substantial additional resources. This means that this approach is within the reach of all countries, rich and poor alike.

Coherent policies

If the consistency of these green policies with other policy priorities is clearly established, the likelihood that the right political choices will be made rises

dramatically. It will be important to show that the green economy is as capable of generating growth as the brown economy—it will not slow the development process, or set back the efforts of developing countries to improve their living standards. It will also be important to show that the green economy can generate sufficient decent work. UNEP and the ILO have made the case that the green economy not only can produce enough jobs, but that these jobs are more decent and much more sustainable than jobs in the “brown” industries. But of course, there will be losers in the transition, as the brown sectors and activities decline and are replaced by green ones. And here again is a central role for public policy.

Overcoming the resistance to change requires an honest assessment of the losses that the transition will cause, and explicit policies to assist those adversely affected by the transition. This can entail ensuring adequate social protection for those who lose jobs in the “brown” sectors and retraining them to take up the jobs being created in the “green” sectors. Such programs could be financed, at least in part, from the reduction of perverse subsidies or the taxation of environmentally harmful activities. Moreover, governments must be mindful of how changes in tax and subsidy policies this will affect poor and vulnerable groups and take steps to mitigate any adverse impacts.

Public policy can also contribute to the creation of green jobs—through the employment effects of scaling up markets for green products through green public procurement or through green public investment; but also indirectly, through sectoral policies; for example, in the greening of urban planning and the expansion of mass transit, which in itself will create many new employment opportunities; and through education and training to equip workers to take on new, green jobs. Similarly, policies to support research and development in new

technologies in the private sector, and to facilitate the transfer of and access to appropriate technology while protecting intellectual property can also encourage the creation of sustainable and decent jobs in new areas.

These few examples show how the green economy approach can also strengthen the link between policies for environmental sustainability and social objectives. And they demonstrate a fundamental point—the green economy cannot be successfully implemented unless there is a coherent, whole-of-government approach to policy making that integrates the objectives of economy, social and environmental policy. And the linkages between these pillars must be made clear.

[Of course, not all countries will implement the transition at the same time or at the same pace, and this prospect has given rise to concerns about a loss of competitiveness and the potential for “green protectionism”. However, much of the restructuring that the green economy will bring about is in the “domestic” or non-tradable economy—the advantages of “greening” will hopefully motivate many, if not most, governments to start the process early. Another concern, namely the possibility of “green conditionality” may prove less likely than feared—bear in mind that most major projects supported with external resources already entail environmental impact assessments.

But global coordination is needed in some areas, notably in ensuring access to and financing for sustainable technologies in developing countries, as well as in mobilizing the financing necessary to meet the costs of mitigating or adapting to the effects of climate change and addressing other environmental problems such as urban air quality, water scarcity, and the loss of biodiversity.

Different ways of working and measuring progress.

Let me turn now to the final point—different ways of measuring progress and more effective ways of working.

We value what we measure and we measure what we value. Traditional measures of economic performance based on GDP ignore environmental sustainability and social objectives. The green economy, as an economic and market-based approach, will become a more powerful and convincing concept if the traditional measures of economic performance can be adapted and adjusted, for example, to incorporate measures of the ecological sustainability of economic activity; measures of the resource efficiency or intensity of production processes; or measures of the carbon footprint of consumer products. Similarly, effectively integrating social concerns into a cohesive policy framework implies paying attention to measures of human wellbeing and development that go beyond income and distributional issues.

Much work is already being done in this area, by the UN, the World Bank and the OECD, and elsewhere, for example by the Stiglitz-Sen-Fitoussi Commission. But this is a very complicated issue, and much more work will be required, particularly if the Rio Conference mandates the development of Sustainable Development Goals.

Finally, achieving the necessary policy coherence in support of the green economy also requires changes to our institutional set up. At the national level, most governments are organized in ways that make coherent policy making possible in principle, if not in practice. Such arrangements do not yet exist at the global level. Member states will be reflecting on the institutional framework for sustainable development at Rio, including the options for strengthening

UNEP itself, and it is not for me at this stage to make any suggestions in this regard. But even within the existing structures, it is possible for our international institutions to work together more effectively to foster policy coherence.

The collaboration between the IMF and UNEP on fiscal policy for the green economy, or between UNEP and the ILO on green jobs, are examples of the kind of inter-agency collaboration that can provide more effective support to the efforts of member states to strengthen policy coherence at the national level. It is in all of our interests to encourage such collaboration wherever possible.

It is important to stress this issue of policy coherence. The green economy will succeed to the extent that it reflects a “whole-of-government” approach; to the extent that it is as important to the finance minister as to the minister of environmental affairs; and to the extent that it changes the way we produce and consume without resorting to coercion or depending on directives. Indeed, all stakeholders, public and private have a role to play. The required changes in public policy that I have touched upon are not radical in and of themselves, but the changes in approach and outcomes can be fundamental.

In closing, let me recall what is at stake. In a speech here in Nairobi two years ago, the IMF’s former Managing Director, Mr. Strauss-Kahn noted that “climate change...could be the shock to end all shocks”. That speech was about Africa’s economic transformation, but no country will be immune if we fail to act and to act now. The green economy will not solve all the problems of the environment, but it can put us firmly on the path toward sustainability. This

agenda concerns us all, and the time to embrace it is now. I would encourage us all to keep this in mind as we prepare for the Rio +20 and beyond.

Thank you.