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CHAIRMAN'S SUMMARY

Strategies for Green Growth: Framing the Issues

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STRATEGIES FOR GREEN GROWTH: FRAMING THE ISSUES

The following is a summary of the discussion on 14 December 2010, issued under the Chairman's authority. Please note that, in keeping with Round Table procedures, this summary in no way represents an agreed outcome.

The world faces two major challenges: meeting the demand for better lives and expanded economic opportunities for a global population set to rise to around 9 billion by 2050; and addressing environmental pressures that, if left unaddressed, could undermine our ability to deliver those opportunities.

In 2009, at the height of the global financial crisis and in the run-up to the Copenhagen climate conference, Ministers asked the OECD to develop a Green Growth Strategy to address these major global challenges.

Developing a Green Growth strategy presents both an opportunity and a challenge. It is an opportunity to emphasise good ideas and to build on them. The challenge is to bring freshness to a familiar policy tool box and, more importantly, get a better understanding of what it would take to implement them.

With this in mind, the Round Table on Sustainable Development met to discuss issues arising from the development of the Green Growth strategy and ways they might be presented. Although a range of questions were put forward for discussion, the group focussed primarily on how the strategy should be framed and the key issues that need to be addressed by the OECD's work.

An ambitious vision for Green Growth...

A majority of the group articulated or agreed on the need for a strongly positive vision for Green Growth. The strategy must be focussed on opportunities and change. Major structural changes and technological revolutions of the past are reasons to be optimistic about the future and the potential for Green Growth to be a new source of growth.

After all, if there is a necessity to change, due to wide ranging market failure, then attention must shift to the best way to resolve those failures and the opportunities that then follow. Focussing solely on risks is in and of itself a risk because "the platform has to be really burning before people jump".

The strategy has to be broad. It can't only be about efficiency and about growth and markets. It has to be about a vision for better lives, green jobs, and not sacrificing future prosperity.

Green Growth also shouldn't be confined to 'tweaking' the economy. It has to be about transformation. Indeed even technological progress, which can take us a long way, cannot be the whole solution in the end. Improved resource productivity can simply lead to greater resource use. To decouple economic activity from environmental damage will mean attention to absolute levels of pollution and resource use, not just technological change. This is challenging as there are no historical examples of this except perhaps in the case of the oil crisis in the 1970s.

The OECD was encouraged not to be afraid of adopting new approaches, with one participant quoting Einstein in saying that “We can't solve problems by using the same kind of thinking we used when we created them.”

...equal to the scale of environmental challenges

Behind this sense of vision was a realistic assessment of the environmental and economic challenges in Green Growth. For example, the simple arithmetic behind climate change compels a revolution in the way economic activity takes place. We are at 50Gt / Annum of CO2e emissions and to have a 50/50 chance of limiting warming to 2C we need to get below 35 Gt/yr in 20 years and below 20 Gt/yr in 40 years.

We also need to double food production and need to pay attention to the economic and ecological footprint on soil, water carbon etc. When governments and industry work together, small scale farmers could be turned into a resource efficient workforce, and this is a revolution.

Prospects for growth are mixed and new sources are needed

Prospects for growth are currently weak in many OECD countries, with potential for weak demand growth and investment in some countries. Rising commodity prices including for oil and many food commodities could seriously impede the more robust growth currently occurring in some developing economies.

Large scale infrastructure investment which improves productivity or energy use can help to underpin growth. This investment does not have to come from governments; it can come from the private sector if the right policies are put in place. Indeed, hundreds of billions with be invested in infrastructure and energy systems in coming years, so governments need to provide strong signals now about what that investment should look like.

Business is already focussed on these opportunities and some are already “harvesting the success” from going green. But the rewards are too few for companies that want to pursue green business models. The regulatory environment is too uncertain. Businesses are planning on investment timeframes of 20-30 years. Governments tend to focus on timeframes that are ten times smaller at best.

Whatever governments decide to do with Green Growth, firms need certainty and a “rule book”. “The biggest risk to business is the risk of inaction”. If governments want green growth they need to clearly define what sort of winners should succeed in a greener world and create a policy environment which rewards them.

The need for fiscal consolidation in many countries should be seen as an opportunity for reforming expenditure programmes like subsidies. It should also provide an opportunity for introducing environmental taxes although experience shows these kinds of reforms need to be folded into a wider agenda of fiscal reform which can improve the functioning of the economy, including counterbalancing environmental taxes with reductions in other tax rates.

The Green Growth strategy should seek to combine aspects of sound economic policy with environmental objectives. This should include combining labour market policies like those in the OECD’s reassessed Jobs Strategy with the Green Growth Strategy.

Costs of change shouldn't be ignored...

A strategy which deals with environmental risks will mean higher prices, at least in the short term, for some goods and services like electricity. We need to be upfront about that.

Similarly, there will be a dislocation of workers in some industries. However one must also be clear that there are two-sides to most discussions about such costs. For example, the 2009 Congressional Budget Office analysis found under the American Clean Energy and Security (ACES) Act U.S. GHGs are sharply cut but costs only a postage stamp a day (excluding energy efficiency savings). But "on the other side of the postage stamp is a green job".

...although most are not a cost but an investment for the future

Most trade-offs between green and growth are temporal trade-offs. The choice is not necessarily between green and growth but between economic life today and economic life in the not so far future.

Green Growth therefore needs to be framed partly in terms of a "generational contract", similar to how nations plan to finance the welfare state in light of a demographic revolution. Green Growth needs to be included in such a contract and can serve to bridge the self-interest of consumers and long-term citizen interest.

Ultimately, these aren't economic problems so much as problems of political economy. There are fundamental problems arising from the fact that governments operate on, at best, five year planning horizon while major private investment operates on a thirty-plus year time horizon and environmental impacts are often locked in over a much longer time horizon.

For this reason governments must lay down the rules of engagement, consistent with green growth, and let business plan accordingly.

Governments should define success in preference to "picking winners"...

The role of government in Green Growth should have three parts:

1. *Defining what winning is*. This is not a new role for Government, it started with telling companies to refrain from killing their customers or workers! The rule should be to refrain from harming the environment in this case.

2. *Creating the context where winners can emerge*. This means conditions for research and development, infrastructure investment, removing detrimental barriers and subsidies, reducing/mitigating risk, helping to navigate the valley of death between starting up and success, collaboration with private sector research.

3. *Ensure that emerging winners are adequately rewarded for their efforts*, i.e. steer the financing towards the winners

There was some discussion about the precise meaning of the second of these. What do governments need to do and how hard they should push to drive change, especially in terms of supporting clean tech and R&D?

While there was a general view expressed that Governments should not pick winners, there was no consensus on what this means in practice. Some argued that the demonstration phases of new technology are most important for government support. Others argued that public research has played a considerable role in economic “revolutions” in the past such as the Green (crop) Revolution. In the context of Green Growth, a similar scaling up of research effort is needed, with one participant noting a deficiency in private sector research in the energy sector where R&D is a minuscule proportion of revenues as compared to innovation rich sectors like health and pharmaceuticals.

Others emphasised that public private research partnerships are important if such efforts are to achieve the kind of scale needed to affect change.

It was also noted that governments need to look outside some of the usual places when thinking about how to get conditions right to mobilise the finance needed for large scale changes in physical infrastructure. The required “revolutions” requires large investments that can also yield huge returns, energy security, saving the planet, etc. This need not come from governments; smart regulation can also stimulate private sector investment. In this regard, pension funds have trillions of dollars under management that can be a source of investment for green growth but attention needs to be paid to whether current and emerging regulatory frameworks (e.g. Solvency 2) will facilitate or impede this. One participant noted that in this regard “Solvency 2” legislation is the most important piece of legislation in 2011.

The role of governments in actively realising green growth also should not be be discounted in so far as a considerable amount of economic activity and factors shaping growth actually comes from outside the market (health, someone taking care of the household, education, human capital).

...and leave the “Green Race” up to private interests

Some participants emphasised that a Green race was on. With a third more people joining the human population in the next forty years and enormous infrastructure investment to be undertaken there will be big opportunities but competition will mean that there will be winners and losers.

Others noted that such a race would only be beneficial if it was between firms but not if it led to competition between nations, especially a race to exploit the global commons. Competition over means to growth is crucial to driving innovation but competition over resources could be very damaging especially if it was reflected in policy competition in areas like trade rules and regulations

It would be disastrous if countries engaged in competition, especially if this did not respect comparative advantage. Indeed countries need to coordinate on policy including harmonisation of policy wherever possible, rather than compete. Competition should be left up to companies. To the extent that there is competition amongst firms, it should be remembered that this is a positive sum game. Even if there are individual winners and losers, the gains to society are net positive.

The nature of competition between firms needs to be between old and new technology, good and bad business models, and good and bad regulation.

Appealing to a wider, non-environmental, constituency...

There was some discussion about the capacity of institutions to affect Green Growth. Should Green Growth be a top-down concept, coming from broad international cooperation or a bottom up effort starting within domestic policy or at the level of business?

Some are sceptical about the capacity of governmental institutions to internalise the idea of Green Growth. One participant underscored the fact that it is easy for a Minister of the environment to say “yes” to the idea of Green Growth and even the policies necessary to achieve it but environment ministries do not necessarily have the power or economic instruments at their disposal to affect strategic economic change. This is more likely to lie in finance ministries or other agencies like transport.

Indeed, while the concept of green growth has traction at the highest level government in many countries, i.e. prime ministers and presidents, engagement of other key actors like finance ministers and ministries and also local governments and communities is lacking. Resolving this is crucial especially if Green Growth is to be a Growth strategy. Ways need to be found for adapting the objective function of all policy makers to include: reducing the greenhouse gas intensity of production; reducing the intensity of resource use; and improving the productivity and resilience of food systems.

Green Growth needs to be clearly distinguished from sustainable development. In the international arena, there is some scepticism about Green Growth and whether there are intentions for the concept to supplant Sustainable Development in the international arena. This is certainly a concern amongst some developing countries, especially as sustainable development is a concept that has slowly achieved acceptance, largely in light of recognition that sustainable development means different things in different development contexts. Similar context dependence needs to be established for Green Growth. For some Green Growth needs to be an “evolution not a revolution”.

...requires measurement and facts

Measurement and facts were seen as a crucial aspect of Green Growth, integrating economic and environmental policy, and broadening the appeal of Green Growth.

A number of participants emphasised that the measurement of growth is central to decision making. At the end of the day we also to be clear that growth is only a means not an end. Attention needs to be paid to the legacy of growth which, we can all agree, should be reflected in our collective wealth.

In this regard, the difference between flows and stocks needs emphasis: A society’s endowment, or debt situation, determines its ability to sustain growth. “People love wealth. Assets not flows need to be measured”.

In addition, measurement needs to capture risk and uncertainty as management of risk is a key motivator for green growth.

A clear fact base is also needed on the benefits from infrastructure investment and growth and some clear ideas on how to tackle the political issues.