

‘Green Growth’ is an attractive concept for analysts and policy makers alike, but to be effective it must be backed up by effective collective action, not spin.

Alex Bowen and **Sam Fankhauser** outline why green growth is currently so attractive to commentators. If green growth measures, such as targeted investment in environmental projects and incentivised regulation, are implemented in a well-thought out way, then they may pave the way for a new ‘green industrial revolution’.



There is much talk at the moment about green growth – environmentally sustainable, biodiverse, low-carbon and climate-resilient growth in human prosperity. Policy makers are attracted by the fact that green growth allows environmental protection to be cast as a question of opportunity and reward instead of costly restraint. Analysts like the green growth idea because it abandons the narrow focus on emission reduction costs for broader, more nuanced and richer strands of economics.



Green growth enriches the policy debate in four important ways.

First, green growth reconnects long-term environmental sustainability with the understandable concerns of politicians about short-term macroeconomic issues like debt, unemployment and the performance of the economy. The calls for a green fiscal stimulus, which started at the height of the world economic crisis, draw on this perspective. A continuing weak economy, low interest rates and high unemployment mean that this aspect of the agenda is still relevant. Where government budgets allow, timely and targeted investment in environmental projects could boost GDP and ensure an environmentally sound recovery.

Second, green growth espouses a much wider view of how and why markets fail. The problem is not just that markets ignore the value of the environment. Markets also malfunction if there are information problems, if firms have monopolistic power or if innovation is not properly rewarded. These market failures can interact and reinforce each other. Large welfare gains are possible from well-designed taxes, subsidies and regulatory measures that deal with them comprehensively. However, if green growth measures are ill thought out, they could also dent the effectiveness of policies.

Third, green growth recognises that the economic changes required are not mere meddling at the margin. New inventions and social changes in response to environmental imperatives could trigger a new industrial revolution. This would open up huge opportunities for innovative new firms in areas like renewable energy, low-carbon transport and sustainable forestry management. However, it also imposes enormous challenges for established firms.



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One can foresee other obstacles. If there is to be a new green industrial revolution, novel, credible, strong and persistent policies will have to be implemented around the world. Although modern economies depend heavily on energy, the energy sector itself may not be big enough to trigger the same economy-wide transformation and wave of innovation as earlier economic revolutions, such as that in IT.

Fourth, green growth recognises the constraint that increasingly scarce resources may impose on growth in the very long run. So far, human ingenuity and good governance have allowed humanity to escape the fate foretold by the [Club of Rome](#) and many others – that the world is running out of essential resources. Economies have managed to generate new products and production techniques before resource constraints have begun to bite. The challenge is for ‘green growth’ policies to repeat this feat, by replacing exhaustible resources like fossil fuels with renewable ones like solar energy.

How will all this affect economic policy? Green growth requires both public policy and private initiative. It will be private entrepreneurs that start the new industrial revolution. But they need to be incentivised through well-designed – though not necessarily more – regulation. Policies need to be applied within transparent, credible and ethically acceptable frameworks of governance, monitored and assessed by informed citizens. Perhaps most importantly, green growth reinforces the need for collective action. The green industrial revolution will only happen if enough people decide this is the way to go.

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