



A Framework for Action for Sustainable Development

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The Relationship of Sustainable Development to International Economic and Financial Crises

At a glance

- + Using green investment as “green stimulus” may have limited near-term benefits in terms of increased jobs and consumer demand though that varies depending on the specific investment: longer-term investments in green technology are not well suited for near-term stimulus, but some green investments such as reforestation are both labor intensive and quick to disburse.
- + A number of green policy measures to increase efficiency and maintain or restore natural resource productivity also increase resilience and thereby reduce the economic risks of environmental “shocks.”
- + Conversely, a positive effect of policies to maintain stable growth and reduce poverty also will reduce incentives for destructive overuse of resources.

The challenge

Economic crises are relatively sharp, cyclical decreases in output, employment, income, and financial wealth, with serious human consequences as well (Didier and others 2008, Ferreira and Schady 2008, Friedman and Schady 2009, Heltberg and others 2012). Economic crises often result from sudden declines in private demand and capital inflows, and are both cause and consequence of financial crises—major disruptions in financial intermediation, accompanied by sharp declines in asset prices and the failure of many financial and non-financial firms.

Measures to reduce their frequency or severity, especially for the more vulnerable, have great importance. While there has been a focus since the 2008/09 crisis on macroeconomic policy measures to prevent or contain crises, and enhanced social protection for the vulnerable, there is great interest as well in what green growth policies might also contribute to moderating economic and financial crises.

The future we want

A robust and green future economy is one that offers ample opportunities for job and income growth and resilience against economic and environmental shocks, while also maintaining adequate natural capital for future needs and efficiently allocating the services of natural capital for inclusive growth. Green growth policies can contribute to realizing such a future in several ways. However, it is important also to understand the limits to synergies between green growth and the mitigation of economic crises, and the necessity of maintaining sound macroeconomic policies that green growth policies can complement.

Policies and programs to maintain or restore natural resources or ecosystems increase the resilience of natural systems, and thereby help mitigate the economic and human costs of extreme weather events such as floods or severe storms. For example, policies to curb deforestation can both improve the economic sustainability of forest management and reduce the risks of land degradation or forest dieback. Green policies that increase resilience to future shocks, including those engendered by climate change, can contribute to increased ecosystem health and productivity as well. An example is coastal protection and land-use policies that emphasize wetland protection.

Similarly, increased energy efficiency and reduced reliance on fossil fuels (particularly imported fuels) reduces exposure to energy price shocks. Volatile energy prices and sudden increases in energy costs have adverse effects on businesses, households’ budget, and countries’ balance of payments (Bazilian and Onyeji 2012). Even though the magnitude of broader macroeconomic spillover effects is uncertain, greater energy efficiency translates into a reduced vulnerability to fuel price shocks (Blanchard and Gali 2010). Most important in developing countries, energy efficiency contributes to improving the adequacy and reliability of electricity service delivered by the grid, thereby reducing the need for higher-cost, lower-efficiency, higher-emitting onsite backup sources such as diesel generators.

For their part, development policy interventions to reduce vulnerability to the impoverishing effects of shocks, particularly effective and well-targeted social protection systems, can also help encourage productivity-enhancing investments on the part of those most vulnerable to such shocks, including investments in natural capital. Such social protection systems provide counter-cyclical assistance, enhance resilience, and limit enlargement of “poverty traps” that weaken conditions for sustained higher-level growth (World Bank 2005, Lopez and Servén 2009, Ravallion 2008).

There also is concern that macroeconomic crises can increase risks to environmental sustainability by strengthening incentives for “resource stripping”—various sorts of rapid and intensive resource exploitation in order to increase current income flows or reduce debt. Examples could include damaging overexploitation of existing and new lands for crops and livestock production; overharvesting of biomass for fuel when other energy sources become more costly; and less concern with the environmental (as well as productivity and human) impacts of accelerated mineral extraction (including artisanal mining). However, incentives for resource stripping also will increase in relation to how badly a crisis has reduced other sources of income and increased poverty. While better information on risks and incentives for resource stripping is needed, the possibility of its occurrence can add an environmental sustainability component to the remit of those responsible for enhancing economic and financial stability.

The efforts to use “green stimulus” measures during the recent crisis also illustrate the potentials and limits of what can be done with green growth policies to promote economic recovery. Strand and Toman (2010) review several arguments for economic and environmental co-benefits of green stimulus related to energy. They observe that the key ingredients needed for obtaining co-benefits are that the expenditures be for labor-intensive greening activities that are rapidly deployable. Large-scale energy efficiency programs (such as Australia’s weatherization of buildings) and some natural resource conservation (such as reforestation activities in the Korean stimulus program, Barbier 2009) activities may be suited for green stimulus, given that they tend to be relatively labor intensive. Green activities can thus be part of a stimulus program.

However, green investments can require time to properly set up and implement, including establishing a pool of adequately trained workers. Moreover, the objective of maximizing job creation favors relatively low-paying jobs that target low-skilled workers, which may not match the investment structure needed to green growth. There can thus be a trade-off in the design of green stimulus plans, due to the mismatch between the long gestation and more capital-intensive impacts of clean energy investments and the types of expenditures needed to stimulate employment fairly quickly. Bowen (2012) concludes that there could be longer-term employment gains from green energy investments, but how much and at what cost are still uncertain—especially for developing countries.

How do we get there?

There is no substitute for sound fundamental macroeconomic policies to promote sustainable and inclusive growth. Policies that encourage efficient use of resources, saving and investment, and worker skill development; support development of a solid financial sector; promote worker

mobility to seek higher-return employment; promote efficiency-enhancing trade; and provide safety nets all are basic to a green economy as well.

Correcting policy distortions and overcoming market failures for natural capital also can contribute to growth and resilience. Improved agricultural land-tenure policies help prevent “mining” of soil fertility, increase incentives for efficiency-raising investments in land and other capital, and provide increased opportunities for women and the poor. Reduced energy subsidies cut economic waste, reduce exposure to energy price shocks by improving efficiency, and lower environmental harms and may free resources to more efficiently target the poor, for instance through conditional or non-conditional cash transfers (Arze del Granado and others 2010). Sound fiscal and concession policies for mining and forestry mitigate against macroeconomic distortions from a revenue boom, environmental destruction, and corruption, while providing revenue for basic education and other public goods. Equally, policies for stable and diversified macroeconomic growth will lessen the possibility of irreversible damages from resource “stripping” in the face of a crisis.

Investments in resource conservation and improved resilience have broader economic benefits but may not be the best way to rapidly generate jobs in times of crisis. Such activities can increase employment and natural resource productivity, but may take time to deploy and may not be the most labor intensive option—though this varies across green investments types.

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