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Shades of green: an introduction to the green economy for parliamentarians

All production and consumption has a direct impact on the environment in terms, e.g., of pollution, waste and resource depletion, which in turn affects human well-being and exacts an economic cost. At the same time, all economic activity depends on the resources and services that come from the natural world. No economy is viable if it undermines its own resource base.

The concept of the green economy was developed to capture this multi-directional relationship between the economy and the environment. In practice, this concept is not easy to implement. There is also the danger of reducing the green economy to a simple set of environmental policies. Many shades of green make up the complex picture of the green economy. As interest in this economic model grows, there is a need to clarify the concept and familiarize key decision-makers, such as parliamentarians, with the ways in which it can apply to different national contexts.

In line with the partnership between UN Environment and the IPU, this issue brief aims to provide parliamentarians with a basic understanding of the green economy and of the policies required to transition toward it.

Introduction

The traditional economic paradigm centered on rising levels of consumption and production is no longer sustainable. On a global level, economic growth has been realized through the depletion of renewable resources (forests, water etc.) at a faster rate than they can regenerate themselves, as well as through the consumption of finite, natural resources (minerals, oil etc.), at a rate that exceeds the carrying capacity of the planet. Rising global temperatures and sea levels, air pollution and ocean acidification, desertification, deforestation and species extinction all point to the fact that human activity is irrevocably disrupting our planet's natural order.

These effects, and the associated health impacts from environmental pollution and degradation, are being disproportionately borne by the very poorest and most vulnerable members of society. Whilst this growth-centric economic model has led to higher levels of material wealth and human development in many countries, it has left many more in poverty, with future generations exposed to the risks and costs of unsustainable consumption and production. It is therefore failing to serve the human and ecological needs of the planet. This failure will be exacerbated by population growth throughout the rest of this century under the current economic regime.

If we are to prevent the complete exhaustion and degradation of the planet's life-sustaining resources, then the world needs to shift away from its pursuit of economic growth at all costs. We need to transition to an economic model that places greater emphasis on human well-being, is more sustainable, more socially inclusive and equitable, and conserves, rather than exhausts, our planet's natural resources.

The green economy model presents a solution to the unprecedented sustainability challenges the world is facing today.

The Green Economy

> An inclusive green economy is "low carbon, efficient and clean in production, but also inclusive in consumption and outcomes, based on sharing, circularity, collaboration, solidarity, resilience, opportunity, and interdependence."[1]

The green economy looks beyond the traditional model of systematic economic growth to one in which economic development maximizes human well-being within a low carbon, resource efficient and socially inclusive economy. Put most simply, the green economy aims to facilitate a *decoupling* of the economy from the environment so that production and consumption can occur within the planet's carrying capacity – defined generally as the capacity to generate its own resources and to absorb the pollution and other environmental impacts of human activity.

The green economy seeks to drastically reduce waste and limit the resources and energy that go into consumption and production, particularly through the development of new technologies and other innovative processes (the principle of *efficiency*). At more advanced stages of development, the green economy also seeks to ensure that efficiency gains throughout the economy are not nullified by exceeding levels of consumption and production (the principle of *sufficiency*).[2]

In practical terms, this definition of the green economy includes:

- Ways and means to reduce, reuse, and recycle the economic output as much as possible (consumer goods as well as capital goods, such as machinery and equipment);
- Capital intensive investments in renewable energy (e.g. solar, wind, geothermal) and in public goods that promote communal use (e.g. public transit) as opposed to individual ownership (e.g. private automobile);
- Policy changes that can be made at minimal cost to the public and rules to better ensure equitable use of environmental resources (e.g. fuel efficiency rules for the auto industry; tax on electricity consumption beyond a certain level);
- Economic policies and laws that spread productivity gains more equitably, supporting employment and incomes (e.g. laws to protect workers' bargaining rights);
- Fiscal policy reforms to internalize externalities (i.e. the real environmental cost of all things produced), while mobilizing public resources for green investment and shifting producer and consumer behaviour towards sustainability;
- A new system of environmental accounting to factor in environmental externalities into the economy, as well as new indicators of sustainability and of human well-being as alternatives to the Gross Domestic Product (GDP).[3]

The transition to a green economy can advance the global sustainable development agenda by providing a pathway to poverty eradication and supporting the implementation of the Sustainable Development Goals.[4]

This transition is already well underway, though many challenges remain to bring it to fruition. Many countries are taking, or have already taken, steps to reform their legal and governance structures to incorporate laws and policies which promote a green economy.

The Green Economy and Sustainable Development

Sustainable development can be defined as the synthesis of economic, social and environmental objectives into a single coherent development framework. In the Outcome Document of the 2012 United Nations Conference on Sustainable Development, "The future we want," governments endorsed the role of the green economy in advancing sustainable development, recognizing that, in the absence of an economic paradigm shift, the goals of sustainable development would remain out of reach.

The emergence of the green economy has already had a positive effect in reinvigorating the global commitment to sustainable development, and has been a catalyst for renewed national policy development in this respect. In 2016, 80 countries were recorded as having taken steps to advance the national transition to a green economy,[5] though the magnitude and impact of these steps varies dramatically between countries.

The Green Economy and other Complementary Economic Models

As discussed above, the green economy is a complex economic model that requires much more than a technological fix or a simple set of environmental policies. In addition, the green economy cannot be reduced to popular concepts such as the sharing economy, the circular economy or the solidarity economy. Nevertheless, these concepts play an important complementary role by shedding light on different aspects of the green economy.

Sharing Economy

The sharing economy refers to a mode of consumption and ownership that makes individually-owned goods (e.g. cars, homes, work tools) available to a large number of people. It builds on the old tradition of shared services provided by either public or private operators (e.g. public transit, local taxi services, home rental services), the principal innovation being the use of online platforms to facilitate the consumption of such goods by a larger number of people. The premise of the sharing economy is that many goods that are privately owned, often requiring large outlays to purchase, are not fully utilized and sit idle for extended periods of time, when they could instead be more fully utilized by making them available to other people.

One advantage of this approach is that it can help defray the initial purchasing cost of the shared goods. At the same time, those who make use of such goods are less in need to purchase them outright, resulting in lower overall production of such goods and in more savings for consumers.

Whilst the environmental and societal benefits of the sharing economy are well known, in practice these benefits are much more difficult to quantify. The promotion of shared use should naturally reduce demand for resource exploitation; however, research has suggested that in some instances it can fuel an increase in personal consumption as goods become more readily available at a lower cost (per individual use). More empirical analysis is required before any concrete conclusions can be drawn in this respect.

What is certain is that the sharing economy can enable the enjoyment of consumer goods at a lower level of income while possibly contributing to lower overall production as more and more existing goods are utilized by a growing number of people. Among the many effects of this, the most important may be on employment generation: while new jobs will be created, many more may be lost as aggregate production of new products and assets is reduced.

Circular Economy

> The circular economy represents a radical departure from the dominant 'take-make-waste' linear model of production and consumption. Initially propagated in urban and industrial waste systems, circular processes have now been subsumed into sectors as diverse as mining and food production.

The circular economy is focused on the production process and consists of the green principle of recycling applied to the whole economy. The circular model encourages the restoration, regeneration and reuse of materials, promoting the efficient and sustainable management of natural resources throughout their life cycle. This decreases the demand for new resource and energy inputs, reducing the stresses being placed on the environment in terms of extraction, carbon emissions and waste production. Much of the circular economy depends on product design which aims at extending the life of a product nearly indefinitely by replacing each part as it breaks or becomes obsolete.

Like the sharing economy, the circular economy may have a dampening effect on overall employment generation by lowering aggregate production and consumption of new, more input-intensive consumer goods.

Solidarity Economy

> The solidarity economy operates through collective, non-profit and democratically controlled enterprises, which embrace a philosophy of empowerment, equality in all dimensions, and inclusivity. Projects may include cooperative housing, urban gardening, barter programmes, or ecovillages.

The solidarity economy is premised on the proposition that all economies should sustain and serve human development, as best exemplified by the popular phrase "people before profits." This economic model seeks to transcend traditional employer-worker relations through principles of self-determination and cooperation, drawing on alternative ways of living, producing and consuming.

Most often, though not exclusively, the solidarity economy tends to promote and rely on small and medium enterprises with strong links to local communities. While many of these enterprises may be profit seeking, generally the benefits of their activity accrue directly to producers and consumers. At the global level, the solidarity economy can be seen in developments such as the fair-trade movement, which ensures producers (e.g. coffee growers) in developing countries earn their fair share and that inputs (e.g. coffee beans) are sustainably produced.

Whilst possessing the potential to reduce environmental footprints, particularly when it relies on local inputs or products that have been sustainably produced the broad objectives of the solidarity economy focus on the social aspects of economic activity, with grassroots democracy and empowerment at its core. In other words, pursuit of these social objectives can take place irrespective of ecological considerations.

Common Barriers Preventing the Transition

The current growth-centric economic paradigm has inspired national and international economic policy for a long time.[6] A radical departure from this status quo will therefore pose considerable and unique challenges – for both developed and developing countries – and will require a fundamental rethinking of consumption and production patterns, investment and employment policies, and ultimately of the underlying relationship between people and nature.[7] The legal, regulatory and institutional barriers to these changes will need to be addressed and the policies that encourage advancement toward the green economy promoted.

> The transition to well-being policies will not be easy and the course has yet to be fully charted. Bold experimentation will be required.
>
> Quito Communiqué, adopted by the 128th IPU Assembly in Quito, 27 March 2013[8]

A significant paradigm shift will be required in respect of investment, since many, though not all, green economy solutions are capital intensive at the outset. In particular, the high up-front costs required for investment in renewable energy and green infrastructure will present a fundamental challenge for both markets and governments, which are traditionally focused on performance, and return on investments, measured over short timeframes. Many of the steps to enable this paradigm shift come down to ensuring that externalities are factored into their sale price, which will help direct consumers towards more efficient products and services. At the same time, these steps should unlock investment capital for the green economy.

Perhaps the most important effect of transitioning to a green economy is on employment. On the one hand, the transition will generate whole new jobs in all sectors of the economy (e.g. agriculture, energy, manufacturing, services and waste management); on the other hand, many jobs will be lost, particularly as new labour-saving technologies come to market. A number of policy responses to limit the effects of this downward spiral are available to ensure that available work is shared more fairly and purchasing power is distributed more effectively throughout the economy.

Developed Countries

For developed countries, the challenges presented by a departure from "business as usual" will be less one of capacity, and more a willingness to embrace radical change. The Ecological Footprint[9] shows that all developed countries are living well above their own natural boundaries, making up the difference using some of the natural assets available in developing countries.[10] Accounting for more than 75 per cent of global consumption and 41 per cent of global carbon dioxide emissions,[11] the unsustainable social practices of high-income consumers will require deep lifestyle changes. These countries therefore bear a particular responsibility to implement ambitious measures which target the reduction of wasteful consumption and production practices and shift the whole economy towards a sustainable path.

Having more capital overall, developed countries can be at the forefront of massive investments in public assets, such as schools, internet connectivity, cultural centres, fitness facilities, public transit and much more that can greatly improve human well-being at a relatively low cost (per individual use) that everyone can afford. At the same time, as new sophisticated technologies and production methods are introduced at an increasing pace, developed countries will need to deal with the labour-displacing effects of these technologies through job sharing schemes and enhanced social security measures, including a minimum guaranteed income for all citizens.

Developing Countries

Developing countries account for the vast majority of anticipated global growth in income, infrastructure, and population over the next 30 years. These countries are currently running a surplus in terms of ecological assets at their disposal concurrent with a deficit in terms of their human development.[12] They face the dual challenge of maintaining a relatively low ecological footprint within the context of a continuous need for economic development, to meet the needs of more than one billion people still living in absolute poverty, and who lack basic human services, such as health, water and education, as well as to raise the living standards of the population as a whole. Limited financing capacity and information gaps are prevalent realities which will further impede these countries' transition toward the green economy.

However, this dual challenge also represents an opportunity for developing countries to leapfrog to ecologically efficient, inclusive and sustainable economic growth whilst avoiding the unsustainable socio-economic model that has taken root in developed countries.

It is possible for these countries to dramatically raise human well-being without exceeding their ecological footprint. Being generally less endowed with financing capacity, these countries can achieve important results by implementing many of the relatively low-cost regulatory and legislative changes referred to in this paper. On the other hand, developing countries need to raise more revenue and mobilize more private investments to support employment generating economic development.

Concrete Actions for Parliamentarians

The following is a list of concrete actions involving all three pillars of sustainable development – economic, social and environmental – that parliamentarians in both developed and developing countries need to consider to enable the transition to the green economy.

- **Realign public expenditures towards the promotion of green investments and resource efficiency.** Parliamentarians can enact laws that facilitate the redirection of public expenditure and investment away from resource intensive and polluting activities to investments in green infrastructure (e.g. recycling plants, railways), renewable energy (e.g. solar, wind), science, research and development for more efficient consumption and production, and public goods (e.g. schools, health clinics, community centers, public transport, internet connectivity). To be effective, these laws should redirect state subsidies away from the fossil fuels industry or introduce taxes or other measures to discourage fossil fuel use. Laws can also require public procurement to follow green practices and the use of public funds toward a low-carbon green economy.

- **Promote national laws and regulations to raise capital for green investments**. Laws should allow governments to raise capital for green investments (e.g. through taxes, fees, or the issuance of green bonds). Laws that encourage both multilateral funding and in-country investment opportunities relating to the green economy can also be developed to ensure that a wide array of funding opportunities is made available to countries (especially developing countries) in addition to public funding. This would include legislation that regulates whether and to what extent private funds are directed towards activities that support the green economy, taking into account the profit-making objectives of most private enterprises.

- **Strengthen national environmental and planning processes**. This includes establishing the legal requirement to conduct strategic environmental assessments (SEA) of proposed international agreements on trade and investment, and of public infrastructure projects, to evaluate their impacts and ensure that they are planned in consultation with relevant constituencies to adequately address any foreseeable impacts at the earliest possible time. This also includes requiring environmental impact assessments (EIA) to be carried out prior to important private sector projects, and requiring that the costs of environmental degradation be borne by the polluter. Zoning laws and regulations can be enacted or amended to achieve optimal levels of urban density, create mixed neighborhoods of residential and work spaces, and incentivize local production and consumption.

- **Enact laws that promote sustainable production and consumption practices**. This will include legislation to enable the application of the polluter-pays principle,[13] to mainstream Reduce, Reuse and Recycle practices in all sectors of the economy, to include relevant environmental information in product labels (eco-labelling), to promote the implementation of environmental management systems and the internal audit of these systems, and to make environmental education mandatory from the early grades. The use of market-based financial mechanisms, such as subsidies and taxes to encourage "buy-in" and reduce the costs of compliance with these laws, could be considered.

- **Put labour market reforms in place**. Labour market reforms to provide affordable education, vocational training and re- or up-skilling, can reduce social inequality for marginalized and low-skilled workers by facilitating their access to green employment opportunities (e.g. in the clean energy or waste sectors) as more polluting industries are being phased out. In high-income economies, labour market reforms can extend to legislation to reduce work time as a way of promoting full employment on relatively lower levels of new productive investments. This will result in increased human well-being in terms of more time for family and community life, more time for learning, and less stress society wide.

- **Regulate finance and promote policies that support the productive sector**. The financialization of the economy and its inherent tendency to financial speculation can have a negative impact on the real economy of workers and producers. Laws that limit financial speculation and reduce risk for investors and savers can help stabilize the overall economy while redirecting resources toward the productive sector. This in turn may contribute to greater capacities for green economy investments. A tax on financial transactions, for example, may help raise revenue for public goods and infrastructure investments.

- **Support alternative business models**. The prevailing business model revolves around the profit motive. Large corporations in particular need to return sufficient dividends to often distant shareholders with little oversight of business decisions and no particular responsibility for environmental and social outcomes. A large menu of laws and regulations is available to promote alternative business models that are more rooted in local communities to which producers and consumers are closely connected and so are more sensitive to the environmental impacts of their activities. This includes worker-owned cooperative enterprises, consumer cooperatives, or community-based enterprises that are less driven by the profit motive than they are by social objectives, such as employment creation, sustainable production and healthy lifestyles.

- **Champion laws that broaden and strengthen rights to access information and to public participation in decision-making.** Establishing the legal right to access environmental information and the right of relevant stakeholders to participate in the decision-making process will significantly increase public education and awareness, engendering a shift in consumer practices and societal behavior.

- **Establish monitoring and evaluation (M&E) regimes to ensure transparency and accountability.** Laws can set, or enable the setting, of specific and quantifiable goals and benchmarks to track progress towards the implementation of green economy initiatives. Laws can designate independent institutions vested with sufficient authority and endowed with adequate resources to monitor and evaluate government action, and make results publicly available.

- **Require the institutionalization of environmental accounting principles and new metrics of progress.** The environmental cost of consumption and production (externalities) needs to be factored into the market place, as well as into the system of national accounting. In particular, the Gross Domestic Product (GDP) needs to be reformulated to reflect only environmentally sound production, i.e. discounting from the calculation those goods and services that are produced to remedy environmental externalities (e.g. health care for respiratory diseases linked to environmental pollution). As the GDP does not capture the many dimensions of human well-being that are intrinsic to the green economy, in the longer term, new metrics will need to be developed and adopted. These may include the Ecological Footprint (https://www.footprintnetwork.org/our-work/ecological-footprint/), which can be applied to countries and individuals, as well as various indices of well-being, such as the popular human happiness index of the Sustainable Development Solutions Network (http://worldhappiness.report/).

Conclusion

The green economy is an indispensable pathway to meet the inter-related economic, social and environmental objectives of sustainable development. At its core, this economic model calls for a re-think of the very meaning of human development and progress as something more than material accumulation, important as this measure may be. When fully applied, the green economy can lead to a more equitable social order, a more fulfilling lifestyle, and a more symbiotic relationship between people and nature.

As decision makers and opinion leaders, parliamentarians can play a decisive role in the transition to the green economy in their respective countries. All parliaments can contribute to this process. There is no limit to what political will can do.