



**Comments on:  
Policies for a Green Economy: Making a  
Reality of Sustainable Development**

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# Introduction

- Focus my comments on three:
- An area of disagreement – budgetary policies
- An area of agreement – industrial policy and sustainability
- An area of enquiry – views on the ‘no growthers’




# Budget deficits and investment

- ▶ Two related issues:
  - ▶ Will investment be higher or lower under 'green growth', and will 'green growth' be slower (than experienced prior to global financial crisis), and indeed will growth be slower in the industrialised world anyway;
  - ▶ Would the 'green' capital-output ratio higher or lower than previously experienced. The transition to 'green growth' may well require investments to enable the re-structuring of the economy;
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# Budget deficits and investment

- From  $K = v.Y$  (K capital, v capital-output ratio, Y output,  $NI/Y = v.DY/Y = g$  (NI net investment))
  - How will capital-output ratio change, and will growth (g) be lower?
  - Quite possible that consumption expenditure (public plus private) as conventional measured will be higher relative to GDP under 'green growth'
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# Budget deficits and investment

- 'Borrow systematically only to invest, not to consume'
- Full employment should be the key objective of fiscal policy not the pursuit of 'balanced budgets'
- Budget deficits = Savings minus Investment
- With investment at or below previous levels, 'excessive' saving requires budget deficits and to enable savings to occur



# Budget deficits and investment

- ▶ ‘Golden rule’ doesn’t help: if borrowing is deemed unsustainable it is unsustainable whatever is funded by the borrowing (and budget deficits are sustainable when set appropriately);
- ▶ Need to recall what is included in public investment as conventionally measured – military hardware is included, but education is not.
- ▶ Focus should be on the composition of public expenditure and structure of taxation, and budget deficit set to underpin high level of employment



# Industrial policy and strategy

- ▶ Some remarks on industrial policy (or as I would prefer industrial strategy) which a number of writers have seen as coming back into vogue.
- ▶ The idea that government and social partners set the contours of industrial development, and finance and funding are guided accordingly.
- ▶ Re-structuring the financial sector and instruments to channel funds into 'green investment'
- ▶ Have to raise question of how this would operate at the EU level with the limits on state aid etc which are part of the EU.



# Growth and human welfare

- ▶ 'Deliver as much economic growth as the planet's resources and environment could support over the long term'
- ▶ Reflect on the 'no growth' and 'de-growth' advocates:
- ▶ The no-growth lobby etc point to the lack of relationship between happiness indices and GDP per capita after a threshold; how would human welfare be viewed and does it tend to improve with higher levels of GDP (or similar measure).
- ▶ Is an annual growth rate of economic activity of the order of 1 to 2 per cent ecological sustainable (with relevant economic and social policies) or are the 'no growthers' right?