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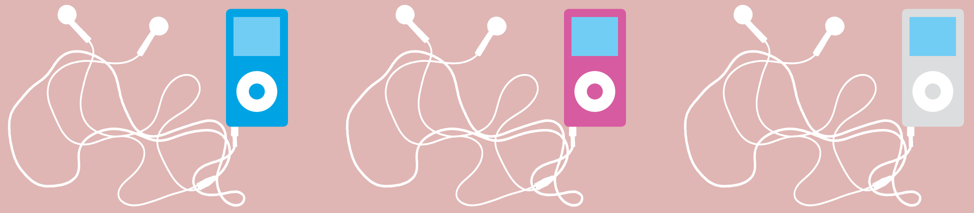
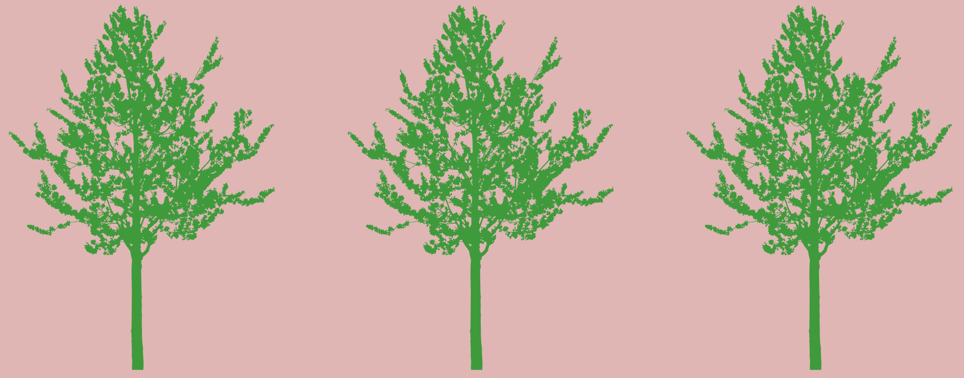


PROS AND CONS



The potential impacts of the credit crunch on the environment may not all be bad. But, Dieter Helm suggests, we should really take a longer view and rethink GDP to get the economics right for the future.

The environment is conventionally regarded as a luxury good. The argument is that, as people get richer they become more concerned about, and more willing to pay to safeguard, the environment. In its most complacent and simplistic form, the argument suggests that since rich people, and rich economies, will care more, the transformation from pre-industrial to post industrial is a temporary setback towards a greener future. Thus, it is argued that the faster China and India industrialise, the better for the long-term future of the environment.

The luxury good argument is both a long-term argument about the compatibility of economic growth and the environment, and a shorter-term one about how people react to the business cycle and how booms and busts are reflected in the priorities given to green issues. The long-term argument turns out to be substantially wrong, at least when growth is measured by GDP. The shorter-term argument turns out to be right and, with the very real prospect that the credit crunch might usher in a serious economic downturn, bodes badly for the immediate and pressing green agenda.

The easy political claim that there is no conflict between the pursuit of economic growth and the environment, one which Gordon Brown is especially keen on, was given a major boost by the Stern report on the economics of climate change. That report claimed that we could sort out climate change at a cost of perhaps just one per cent GDP, the number from the report most widely quoted by politicians across the globe. This one per cent would avoid a downside from global warming of some 5–20 per cent GDP by the end of the century. Indeed, at the optimistic end of the spectrum, the Stern report actually claims that we might even have a net benefit to GDP from tackling climate change.

How can this be? How can ever more consumption and ever more people consuming be so benign? The trick in the Stern report, and in much conventional economic analysis, is to assume that we can readily substitute the natural environment for man-made goods and services. We might, for example, lose lots of species and rainforests but, never mind, lots of iPods and new buildings will compensate us. The idea is that we go on creating man-made capital instead of the natural capital we deplete.

Measuring growth by GDP simply reinforces this idea, because GDP does not include any account of the changes in asset values. There is no depreciation at all. For that reason, claiming that GDP can keep going up whilst tackling environmental problems is to argue by assumption. At best, this is misleading, at worst it actually encourages some appallingly bad decision-making.

So GDP growth and the environment are not such easy bedfellows. Economies can grow and the environment can be protected, but only if growth is measured properly, and all the extra growth that is forecast in the Stern report (two to three per cent GDP cumulative for the whole century) and the extra three billion population forecast by 2050, add up to an enormous amount of extra consumption, much of which will almost certainly be unsustainable. We may all be staggeringly rich in GDP terms by 2010, but actually we will be much poorer environmentally.

“how can ever more consumption and ever more people consuming be so benign?”

In the meantime we look to be in for a rather nasty pause in this assumed long-term trend. The credit crisis is measuring up to be one of the worst economic crises in the last half-century, and it is hitting consumers in the UK and the US hard. There are also major energy and food security and price scares, the latter aided and abetted by disastrous bio-fuel policies.

Gordon Brown is not alone in responding to the political signals which come from the slowing economy, and there has been a noticeable retreat already from green taxes and a shift back to the safer territory of concrete and jobs. More runways and so-called eco towns are but two examples. The former will encourage aviation which is, fortunately for the government, outside the Kyoto arithmetic. The latter will bury key environmental assets, currently protected.

As consumers, and voters, face higher mortgage costs, rising fuel bills and the pound buying less abroad on their holidays, it is a sad fact that the environment is one of the first things to suffer. The recent budget reflected this reaction: no serious action to curb aviation growth, no long-term price of carbon (or even a short-term one with much bite), and not even a plastic bag tax, despite the spin. Little, too, was done about cars and the relentless growth in road traffic.

There is however one benefit from a serious recession. It might slow down the rapid carbon-intensive growth of China, which is the main marginal source of carbon emissions. Its ten per cent cumulative GDP growth is currently translating into about two new coal power stations a week (1,000 GW planned by 2030), and nearly 100 planned new regional airports. All of this is a major reason why global carbon emissions are expected to rise (not fall) by 50 per cent by 2030.

If the US slips into recession, the export demand for China's energy-intensive products will be adversely affected. If, say, one of the consequences of the credit crunch is that China grows at say five per cent rather than ten per cent, a breathing space will have been gained in the battle against climate change. It is one upside to an otherwise adverse trend.

A recession may provide a temporary international environmental reprieve. It may be environmentally relatively benign here in the UK. But these temporary effects are trivial in comparison with the destruction caused by focusing on GDP-measured growth, and not taking proper account of the costs of making all the man-made capital.

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