

Can Canada green its economy without growth?

Two economists square off on whether the Canadian financial system is equipped to handle a green transition.



The Hill Times Photo: Jake Wright

Oil sands facilities near Fort McMurray, Alta. TD Economics argues that Canada's overall environmental reputation is being unfairly associated with a relatively narrow slice of the economy.

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Canadians and other global citizens face a particular problem: while economic growth ebbs and flows, an environmental crisis looms ever larger on the horizon.

With a fully green economy still seemingly out of reach, at least for the moment, something needs to be done to achieve a much greener means of living in a much shorter timeframe.

Interestingly, the solution to that problem has led economists in two radically different directions.

One idea is that Canada is not measuring greening efforts correctly, meaning that a subtle corporate shift to greener products, driven by consumer demand and stricter government regulations, is going unnoticed.

According to this idea, a green economy can be incentivized through greater international trade, as that will lead to a race to the top: more Canadians and Canadian businesses will be exposed to more green competition, and more international environmental standards will come into play.

Another school of thought, however, is that traditional economic growth itself is the problem, and excess productivity—more people looking for more jobs—should no longer be channelled into work that creates products, which end up creating pollution, regardless of how green those products are. Instead, this productivity should be directed into tackling societal issues like well-being, and caring for a rapidly-aging population.

Greening through trade

Some analysts believe Canadian businesses are already greening themselves through the market-driven process of economic growth, especially in export-reliant Canada.

This is one argument made by a TD Economics special report titled [The Greening of the Canadian Economy](#), released Oct. 2.

The report suggests that what is referred to as the green economy—industries like renewable energy, for example—understates environmental progress in Canada, as overall greening efforts by regular firms in Canada aren't being measured.

“What we have been seeing around the world is an increasing emphasis on greening. Businesses want to deliver greener products,” said Craig Alexander, senior vice president and chief economist at TD Bank Group.

He said Canadian firms are already recognizing that environmental sustainability is both good for reputations, and can lead to more efficient business practices. In other words, it's often simply a good business decision to go green.

He attributes this to increased consumer demand, corporate social responsibility efforts, stricter government regulations, and the realization in boardrooms that a greener supply chain can actually mean cost savings.

Essentially, economic performance is adjusting parallel to environmental performance, the report argues—a rebalancing effect that ends up growing the economy as a whole, and greens the economy as a byproduct.

“In many cases, people think it's a binary choice: you can either have economic growth or you can have a clean environment. And the answer is: actually you can have both,” he said.

When it comes to international trade, this can have a positive reinforcement effect, Mr. Alexander argued: “International environmental standards will have an influence on Canadian production and Canadian decisions.”

New environmental policies are being erected across the trading landscape, he said, including in Canada's biggest trading partner, the United States.

“As a consequence, if Canadians want to tap the US market, they are going to have to meet the environmental requirements of the United States.”

But already, Mr. Alexander said, there's a disconnect between what's occurring across Canada, and the international reputation that Canada is accruing thanks to the oil sands and the fierce lobbying on both sides.

“Internationally, Canada has been attacked for its lack of progress on the environment, but the focus has been narrowly fixated on one small segment of the Canadian economy, and that is the oil sector and specifically the oil sands,” said Mr. Alexander.

“What's missing is an awareness of what's happening broadly.”

He said in his experience at speaking events, specifically in Canada and the United States, industry greening efforts are going unnoticed. Although when he broaches the topic, the pieces are put together in people's minds, and efforts are acknowledged, he said.

“When they talk about the economy from a macro point of view, they don’t think about how the economy is being fundamentally changed from a structural point of view.”

Greening without growth

This analysis misses the mark, says Peter Victor.

An economist specializing in the environment for more than 40 years, Mr. Victor, a professor in the Faculty of Environmental Studies at York University, authored a 2008 book titled *Managing without Growth*. It challenges the notion that economies should continue to rely on growth as a primary method of achieving a green economy.

Alongside Tim Jackson, professor of sustainable development at the University of Surrey, he also authored a November report titled *Green Economy at Community Scale*, published by the Metcalf Foundation, exploring a similar theme.

“It’s not at all clear that the demand for green products is anywhere near close to the level that we need in order to really cope with the environmental problems that these products are supposed to help us with,” he said in an interview.

This is due to what’s known as market failure, he said: when the allocation of goods in a market economy is not efficient. While green products benefit both the purchaser and everyone else, only the purchaser pays for them.

Put another way, purchasers would likely buy more green products if everyone affected by those products chipped in. But since everyone affected is everyone, period, that’s an unrealistic scenario.

Another issue, he argued, is that all products have some sort of environmental effect, given that they have to be produced, and then shipped or sold to consumers. Absent a fundamental decoupling of growth from how the financial system works, if a company works towards greater environmental efficiency by selling greener products, but then sells more units of them, little to no ground is gained, and may even be lost.

The better way forward is a model that takes into account a broader notion of what an enterprise can be—not just serving shareholders, he said, but other elements that account for social and environmental successes. The three are collectively known as the triple bottom line.

“We’ve got to redirect investment, we believe, away from these activities which are designed to expand the production of goods,” he said.

The problem is how to finance this. Profit-seeking enterprises don’t typically throw their entire weight behind public-good efforts like cleaning up the air quality in a city, because it’s difficult to make money off that, he said.

In fact, Mr. Victor argues that the entire financial system is designed to foster activities that yield profits, and changing that will be necessary to achieving a greener economy.

One way in which he suggests changing it is to move to more community-based models like co-operatives—advice that flies in the face of the TD Economics report.

“If you are highly specialized, your community in a sense just does one thing. Because

you import everything else you need from far and wide, you are very vulnerable,” he said.

“There’s a good case to be made that we shouldn’t become overly dependent on international trade at the national level...because we lose the capacity to respond to shocks.”

He also suggests trying to untie employment with economic growth, and instead direct productivity into activities that enhance well-being like increased leisure time, and expanding services like caring for an aging population.

“We used to do that—up until the mid-1970s, what you saw in Canada and other developed countries was, as we got more prosperous, we worked less. But since about the mid-70s—and I’m generalizing here—we stopped working less, we just produced more and more stuff.”

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