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Cleaning Up Economic Growth

Joseph E. Stiglitz

British Prime Minister Tony Blair has promised that the G-8 meeting on July 6-8 at Gleneagles, Scotland, which he will chair, will focus on two of the most important and longstanding global problems—Third-World poverty and global warming.

For a long time, these two issues seemed to be at odds. The developing world understandably does not want to sacrifice its growth for a global public good, especially when the United States, the richest country in the world, seems unwilling to sacrifice even a little of its luxurious life style.

Led by Papua New Guinea and Costa Rica, a group of developing countries, a new rainforest coalition has now come forward with an innovative proposal, not only offering to commit to greenhouse-gas limits, but also showing how this can be done in a way that will promote their development.

Developing countries have long provided a vital *global* public good: maintaining global environmental assets. Their rainforests are a vast storehouse of biodiversity, and forests are major carbon sinks, reducing the level of CO₂ in the atmosphere.

I served on the International Panel for Climate Change in the mid-1990's, reviewing the scientific evidence concerning the magnitude of increases in greenhouse gasses and their economic and social consequences. At the time, there was already overwhelming evidence of a serious problem that needed to be addressed, and data since then – concerning, for example, the rapid melting of the polar ice cap – have strongly reinforced this conclusion. About a quarter of all greenhouse gas emissions are from land-use change, mainly deforestation, an amount comparable to US emissions from burning fossil fuels (the US is the single largest contributor to greenhouse gas emissions.)

By maintaining their rainforests, tropical countries provide an invaluable global service, one for which they have so far failed to be compensated. But, especially after the signing of the Kyoto protocol, we can value at least *part* of these environmental services: carbon sequestration (that is, if they did not maintain their forests, the level of carbon concentrations in the atmosphere would be enormously higher).

The Kyoto Protocol has generated new markets for trading carbon emissions, such as the European Emissions Trading Scheme (ETS). At current carbon prices, the value of carbon sequestration by tropical rainforests likely equals or exceeds the current level of international aid being provided to developing countries. In effect, the poor are aiding the rich.

Biodiversity and climatic stability are *global* public goods. The benefits of conservation to the world as a whole far exceed the value of exploitation to a country like Papua New Guinea (PNG). The PNG government would like to do the right thing, to maintain its natural capital for future generations. But officials there believe that that they have currently no choice.

A huge mistake was made (for a variety of reasons) at Kyoto. While countries can be compensated for planting forests, they cannot be compensated for *avoiding* deforestation. Countries like PNG would thus be doubly better off if they cut down their ancient hardwood trees and replanted. But this makes no sense economically or

socially. These countries should be given incentives to *maintain* their forests. (There are, as always, technical issues to be resolved, concerning monitoring and measurement, but these can be overcome easily with modern technologies.) At the very least, markets like ETS should credit emissions reductions that result from limiting deforestation.

Without such a program, unfortunately, developing countries have neither the means nor incentives to underwrite conservation. There are some 2.7 billion people in over 60 developing countries that are home to the world's tropical forests. Cutting down the hardwood forests – even when they presently receive just 5% of the final price in, say, New York – is the only way people can make ends meet.

Some have suggested waiting to address this issue until 2012, when a revised protocol is supposed to come into effect. But, can we wait? At current rates of deforestation, the combined contributions to greenhouse gas concentrations from Brazil and Indonesia alone would offset nearly 80% of the emission reductions gained from the Kyoto protocol.

What is so impressive about the new rainforest initiative is that it comes from the developing countries themselves; it represents their creativity and social commitment. For the first time, developing countries seem willing to undertake the kinds of commitments that Europe, Japan, and the other advanced industrial countries (except the US) have made to avoid what could be a global disaster.

Costa Rica, for example, has already shown that a system of paying for the provision of environmental services (like maintaining natural forests) can work in ways that preserve the environment and boost the economy.

Compensating the developing countries for providing these environmental services would be one way of substantially increasing aid – and at the same time, providing these countries with the right market incentives. From a global point of view, the best use of these resources is to maintain the forests, which is even possible with managed cutting.

This is an initiative around which all countries can and should rally. In a world divided – between rich countries and the poor, between those focusing on environmental protection and those concentrating on growth – this initiative can unite us all. The G-8 leaders should heed the call.

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