The "Hiding Hand":

Lessons from Development Economics for the Green Economy

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Introduction

The future of the green economy, and indeed the earth, pivots entirely on what you do here in the next three days. This is bold a claim to make as we begin this conference. Yet, in recent years, the combined forces of global economic recession, human induced environmental change, and stark spatial and social development inequalities have led to international agencies to call for a radical transformation of development practices. It seemed unfathomable two decades ago that mainstream policy makers have called for a transition to a "green" economy. Today they are:

- In 2008, the UNEP, through its Green Economy Initiative, developed a working definition of a green economy as one that is low in carbon production, practices greater resource efficiency, and is socially inclusive.
- Delegates to the Rio +20 Earth Summit discussed the green economy as a key part of sustainable development and poverty eradication (UNEP, 2011).

However, as indicated in much of the post-Rio +20 analysis there are ongoing and intensely contested debates not only about what a green economy might look like, but also regarding how current practices could and should change in order to achieve social, economic and environmental goals.

Listen, the argument for sustainability and the green economy has been made: not many would disagree with the notion that we need to transform the economy from one that chokes the life out of the earth to one that works with the earth's support systems. As I will argue, we also need to examine how we define the success and failure of these activities, especially as we examine the social context of our work. We have to create conditions that release the potential "hiding hand" or the creative energy that takes us beyond the new "clean" widget, to a way of assessing the green economy's "successes" and "failures" in terms of broader social impacts.

Toward this end, I would argue that the "green economy" is tantamount to the new economic development initiatives that followed the Second World War, funded through the Marshall Plan, but most importantly, the US AID and the World Bank. These latter initiatives are most prescient because they were designed to create market economies where none existed; AID funded roads, energy plants, railways, paper mills, and the like. Think back 15 years ago, 20 years ago… the environment was an externality (dilution is the solution to pollution), it was only marketized when it caused measurable human displeasure or suffering. Today, it is at the core of global economic development.

So why do I want to make this claim that developing the green economy is like establishing a market economy for argon oil in post-colonial Morocco? Well, I think we have a lot to learn from this era of development and can, as my title suggests, offers a cautionary note on our current green economy development agendas. To help develop this cautionary note I call on the work of the development economist Albert Hirschman, a German-born, academic who spent his professional career studying development, first in Latin America and then at some of the US's most prestigious academic institutions: Yale, Harvard, Columbia, and Princeton.

To develop this point I wan to briefly examine 1) the Green Economy, and 2) relate the green economy Hirshman's theory of the 'hiding hand'.

The Green Economy is 21st Century Development

Beginning with the economic crisis of 2009, policy makers made unprecedented moves to position green economic development projects as a key component for general economic recovery. This "green" investment is a response to many commentators who have argued that lasting economic recovery requires the relationship between economic development and the environment to change radically.

As The Center for Climate Change and Economic Policy in the UK noted back in 2009:

> If the appropriate mix of policies is adopted, action to tackle climate change could form a central part of a fiscal package designed to moderate the economic slowdown. The development of a low-carbon economy can provide new jobs and new opportunities for innovative businesses. A 'green' fiscal stimulus can be a more effective fiscal stimulus, building the foundations for sustainable, strong growth in the future, rather than unsustainable bubbles.

For example, for UNEP the solution to both climate change and the financial crisis was a green industrial revolution with investment in clean technologies, renewable energy, waste management, sustainable agriculture, green cities and ecosystems management.

Similarly, the green economy became popular for banks and consulting firms to create their own rhetoric. For example:

- Deutsche Bank (2008) identified what it terms the 'green sweet spot' for investment in the USA. The "sweet spot" comprised: energy efficient buildings, the electric power grid, renewable power and public transportation;

- HSBC identified four main areas for investment opportunities: low carbon energy production; energy efficiency and energy management; water, waste and pollution control; and carbon finance (HSBC, 2009).

- The Green New Deal Group (2008) focused on the potential for investment in renewable energy, energy conservation and carbon finance (and associated job creation), accompanied by parallel policies to re-regulate national and international financial systems and to change taxation systems.

To quote Lord Mandelson, of the UK's House of Lords, puts this perspective succinctly:

> This transition to low-carbon is an environmental and economic imperative. It is also inevitable. There is no high-carbon future. Low-carbon is not a sector of the economy - it is an economy" (quoted in SDC, 209: 2).

Economies, like some economists might suggest, are not out there waiting to be realized; they must be created by people. Furthermore, green economies have to be assessed beyond the number of market transactions, like the GDP measures. Let me explain this notion further through the work of Albert Hirschman and his concept of the "hiding hand".

Albert Hirschman, Development, and the "Hiding Hand"

For Hirschman (1967, p. 1), a development project is a special kind of investment. It is one that is:

> …purposeful, some minimum size, a specific location, the introduction of something qualitatively new, and the expectation that a sequence of further development moves will be set in motion.

I would argue that these notions fit the definition of the "green economy". But what would Hirschman have to say about the development economics and, by extension the green economy?

Hirschman understood development projects to represent "a unique constellation of experiences and consequences, of direct and indirect effects". For Hirshman, development projects embodied an ensemble of complex relationships that existed outside the basic structural definition adopted by traditional development economists. Where traditional economists focused on the technical issues; the cost of the project versus the benefits it brought, Hirchman looked to a project's uniqueness and examined the results from the varied interplay between economic characteristics, on the one hand, and the social and political environment, on the other. It is at these interstices where creativity happens. For Hirshman, creativity is the potential "hiding hand" in an economy. The shift from potential knowledge and the realized knowledge of the hiding hand required that policy makers know the difference between success and failure: and it is the indicators that help us do so. If we know these, it is here that the hiding hand can come out to develop creative and innovative solutions from the unique social and cultural standpoint to the problem.

Potential Knowledge and Unrealized Knowledge

In his 1967 book, Development Projects Observed, Hirschman recounted the year he spent evaluating a diverse array of projects: an electric power project in El Salvador, road development in Ecuador, a paper mill project in West Pakistan, and irrigation project in Thailand, and railway construction in Nigeria. At the same time of the book's publication the World Bank had decided that both allocation and assessment would be "all-embracing: a project would be examined in terms of what it can be expected to contribute to the overall development of a country" (King Jr. 1967, p.5). This meant the growth of GDP and the cost-benefit ratio for doing so. For Hirschman, this was unacceptable because cost-benefit analysis is an attempt "to make precise calculations of the secondary effects of investments turned this into an excessively rigid process, hampered by too many arbitrary assumptions and made the quest for a unique ranking a futile exercise." These narrow approaches this limited the capacity for the hiding hand because it defined success and failure based on the narrowly defined costs and benefits of a project. In some cases a successful project, where the hiding brought success from failure, may be missed because the benefits being measured are not part of the calculus.

Conclusion: How does this relate to the real world?

When I think about how this relates to the real world I think of my friend and colleague Charlie Lord. Trained as a lawyer, Charlie is one of the founders of Alternatives for Community and Environment and environmental justice organization in the Roxbury neighborhood of Boston. In his most recent social venture Charlie has focused his work on green retrofits in commercial buildings. Charlie has raised millions from Wall Street venture capitalist by demonstrating to his investors that green retrofits work like mezzanine-style investments. He has also appealed to their sense of responsibility, i.e., they commit a portion of their portfolio to reduce CO_2 and job creation. Charlie's aspiration, however, is to link these activities back to communities of need through workforce development. For Charlie, the green economy is something beyond birds and bunnies environmentalism or independent technological fixes, it's about the three-legged stool of sustainability: economic prosperity, ecological integrity, and social equity.

Today, green economy projects have the added efficiency of a much more connected society, as well as a broader array of actors offering solutions. Like the development projects of the 1960s and 70s, the success of these activities is measured via narrowly defined indicators. In green buildings, indicators come in the form of density, number of new dwellings built, hectares of green space, and electrons saved, etc… Boogie 50, in Freiburg (IB), Germany is an exemplar for transforming "high rise affordable housing into a zero-emission development". What the project champions fail to mention is that of the 120+ families who lived there before the retrofit only a few could afford to stay after the green improvements. Is this project a success? According to electrons saved, the marketing value for Europe's "greenest city", and the rents, it is. If we had a different set, a broader set of indicators as Hirshman suggested, we can quickly bring into question whether the project is a success. For example, what kind of housing were people who were forced to move relegated to? What is the current rent or utility bills? What about the social cost of being uprooted from their community? Yes, we have a cool new building that all of Europe, even the World, can look to as an *architectural engineering success. But, how does this unique constellation of activities create opportunities for broader discussions of social justice and creating "sustainable" green economies?*

There are a broad range of powerful green economy actors here with us. First, what if we thought about the Green Economy not as a suite of technological interventions, but a developing economy. What if we added to our economic calculus the assessment of the broader social benefits these economies can bring; that we looked at the green economy beyond technologies and market for them. It could open up the green economy to the principles of "sustainable development"; principles that, 30 years ago, would give the green economy life just a decade ago. If this group can find its way to see it to a broader set of indicators, and start a conversation here, spread it, champion it, we can change the green economy from having a narrowly defined benefits and the potential to create a bubble, to understanding the conditions that create the "hiding hand" that generate more wealth for more people while saving the planet.

Thanks…