The unlikely link between credit reform and the planet

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It's no secret that investing in technology can help companies grow their profits, but a new study by a University of Alberta economist shows that it can also reduce pollution. The critical factor? Access to credit.

"This technology has to be financed," explains Dana Andersen, assistant professor in the Department of Economics. In addition to using money from their own coffers, he says, "firms also rely on external borrowing to finance their investment." For companies in the manufacturing sector, poor access to credit can prevent them from incorporating more productive and environmentally sustainable technologies.

But was it necessarily the case that greater access to loans leads to environmental gains? Andersen set out to answer this question by studying global credit reforms in the 1980s and '90s that made loans easier to come by in both developed and developing countries. He was specifically interested in the establishment of credit bureau registries, platforms for lenders to give and receive information about borrowers in the economy.

"This has been shown—and I show this in my paper as well—that this establishment leads to a big increase in the amount of borrowing in the economy—something on the order of 15 to 20 per cent," he says. Andersen decided to look at a country's pollution levels before and after the creation of a registry to see whether any improvements could be found.

Published in the Journal of the Association of Environmental and Resources Economists, his research shows that levels of two common pollutants—sulphur dioxide and lead air pollution—decreased significantly after the establishment of registries. Andersen chose to analyze these particular industrial pollutants because they are commonly monitored around the world and have a significant impact on health.

The findings are a reminder that economic growth needn't come at the expense of the environment; in fact, under the right circumstances, it can even help the environment. But Andersen notes that the source of the growth matters. Simply accumulating capital isn't enough; investments need to be made in technology for the planet to see any benefit.

He stresses that access to credit is also not a substitute for environmental policy or regulations. "That is definitely not the implication. I think they are complementary to one another. You need both incentives for companies to reduce their pollution and access to credit to actually make these investments."

Provided by University of Alberta