Background briefing for the event:

"Transatlantic Recovery Plans: Green Jobs for a Cool Planet?"

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DISCUSSION TEXT

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Introduction

In the autumn of 2008, it became clear that the world had entered a deep financial and economic crisis. After years of economic growth, a severe recession has emerged, threatening a dramatic rise in unemployment levels and further economic disruptions through bankruptcies and withheld lending and investment. These developments have caused governments to take dramatic action to restore confidence and economic activity to prevent further deterioration.

The largest economic crisis since the Great Depression also coincides with the greatest environmental crisis in human history: the threat of catastrophic climate change. If measures are not taken to prevent climate change and rising sea levels, the resulting effects would dramatically overshadow the economic crisis that began last year. The dramatic increase in public funds being deployed in national stimulus plans thus provides a unique opportunity to dramatically increase investment levels in a greener and more sustainable economy.

The existing stimulus packages designed to aid the economic recovery do indeed contain elements beneficial to greening future economic activity. However, to be effective at stimulating a low-carbon and environmentally friendly economy, such stimulus plans must of course be accompanied by additional measures. For example, Germany's significant climate- and energy-policy framework puts it in a relatively strong position to retain its status as a market leader in key economic sectors such as those related to energy generation and efficiency. In addition, stimulus investments in energy efficiency measures will improve the country's economy to weather future energy price shocks while helping it to achieve ambitious CO_2-reduction targets.

Even though it makes sense to emphasize the opportunities that stem from the crisis, it should not be ignored that the crisis simultaneously presents large risks to the future sustainability of the economy in the form of misplaced or missing investment.

Short-term aspects: the stimulus plans

In the short term, the diverse stimulus plans provide an important opportunity to accelerate progress toward a sustainable, energy-efficient economy. With the exception of South Korea, however, it appears no country has truly shaped their stimulus plan around the concept of a "Green New Deal".

- **An uncertain shade of green:** Estimates vary regarding the portion of economic stimulus going to green efforts. This stems from the complexity of the packages and uncertainties about which final outlays will fall into the green category. A forthcoming Ecologic Institute study estimates that as a percentage of national stimulus plans, green investments were approximately 70% of the total for South Korea; 38% for China; 14% in the U.S.; 10-12% in Germany; 7% in the UK and 3% in Japan with an overall average of about 15%.

- **Standout South Korea.** In comparison to other countries, South Korea's stimulus effort has by far the largest portion of stimulus funds aimed at greening the economy. Absolute green investment levels are higher there than in any EU country. In absolute terms, Chinese and U.S. green investments top South Korea's, but they are significantly smaller as a percentage of the overall national stimulus.
- **Stimulus plans as catalysts for greening the economy.** Since autumn 2008, governments around the world have passed stimulus plans totalling approximately 3 trillion U.S. dollars. With a roughly estimated 15% of this sum dedicated to green investments, perhaps US$450 billion will be mobilized over the life of the stimulus packages. It is helpful to put these investments in perspective with expected green investment needs. For example, the World Economic Forum estimates that avoiding significant climate change will require investments in clean energy of US$515 billion per year (WEF, 2009). The IEA estimates that between now and 2050 a total of US$45 trillion in clean-energy investments will be necessary (IEA, 2008).

Risks to sustainability: misplaced investments

It is also clear, however, that delivering a „Green New Deal“ is something that is much easier said than done. The crisis also contains several threats to the future sustainability of the economy:

- **Difficulties financing green investments and innovation.** Private-sector investment is critical to the deployment of green technology. The difficult financing conditions and dramatic drop in fossil-fuel prices greatly decrease the attractiveness of clean-energy investments relative to what they were just months ago. Several news reports have pointed to a rapid decline in investment levels in key green-energy sectors.
- **Stimulus funds could lock in non-sustainable technologies and structures.** The stimulus packages also contain some decidedly non-green aspects, with significant funding for further road construction as well as measures to stimulate increased auto sales without making fuel efficiency at least one basis for determining subsidy levels.
- **The crisis could delay environmental measures.** The crisis has the potential to delay progress on environmental policies. For example, in December 2008 the European Council made modifications to key environmental policies, delaying the auctioning of CO_2 certificates in the EU Emissions Trading Scheme, as well as delaying CO_2 limits on automobiles to 2015. It is more difficult to assess whether such effects are taking place in the U.S., which has experienced a rapid acceleration in the development of climate-friendly measures at the federal level since President Barack Obama assumed office.

Observations about longer-term issues

In the near term, the focus of the stimulus packages is rightly on restoring economic activity, creating jobs and rechanneling economic growth in a sustainable direction. But private-sector investments in job training and new technologies will also be guided by expectations of what comes after the crisis. The success of near-term efforts is thus affected by signals from government regarding the longer-term framework that can be expected in the future. Thus, even now, it is important for national governments and intergovernmental organizations to show how green investments today will not be undermined by an evaporation of a supporting framework in the future.

- **Creating the low-carbon economy.** The carbon intensity of the global economy must decrease dramatically. Short-term stimulus packages should be structured to maintain investment levels. Medium- and long-term recovery measures should do the same. A robust climate agreement in Copenhagen in 2009 would perhaps be the strongest signal that countries are serious about driving a global transition toward a low-carbon economy and that the global market for clean-energy and energy efficiency technologies will see rapid expansion.
- **Increasing innovation and competitiveness.** Short-term stimulus measures alone will not provide adequate incentives to invest capital and hire and train employees. The private sector requires a strong, long-term price signal that carbon-based energy will be expensive enough to make renewable price competitive. Government regulations and incentives should maintain and strengthen the carbon-price signal even in the context of the economic crisis. A country that does not do so risks showing a lack of commitment that would delay a shift in private-sector actions harmful to that country's long-term competitiveness. There is also a significant danger that short- and medium-term stimulus measures—if poorly designed—could create a new regime of subsidies to polluting industries that undermines long-term economic competitiveness and risks undermining global trade through competing protectionist measures.
- **Creating the jobs of the future.** There is naturally a temptation to simply protect existing jobs and industries as they were prior to the crisis. However, medium- and long-term recovery strategies should look toward the future and be targeted toward protecting and creating jobs in areas of expected long-term growth. This includes, among other things, the so-called green jobs. The most significant job-creation opportunities within the green-jobs sectors are in clean-energy and energy-efficiency. This is already reflected in the fact that the bulk of countries' green-jobs strategies are focused in this area. It is important that the promise of green jobs not be oversold. Stimulus investments in green activities with low job-growth potential, while perhaps important from an environmental perspective, will not generate the employment levels possible through investments in other environmentally beneficial activities.

- **Eliminating perverse subsidies.** Another key recovery measure should be the reduction and elimination of subsidies to fossil-fuel consumption and other environmentally harmful activities. Medium- and long-term recovery measures should not add to the inefficient subsidy burden and should slowly dismantle existing subsidies, which will have the additional positive effect of reducing government deficits. Any new subsidies to green sectors should be temporary, well-constructed, and targeted to provide effective incentives for private decision-makers at lowest public cost.

Crisis as Opportunity: Strategy Summary

In the near-term, there is an immediate need to use fiscal policy to stimulate economic demand, thereby maintaining economic activity and employment. For the longer term, it is important to ensure that stimulus packages promote long-term investments in a sustainable economy now and that governments ensure the right incentives are put in place to guide businesses and consumers toward building the next economy.

Key short-term strategies should include:

- Implement programmes to stimulate energy efficiency improvements and maintain the rapid deployment of today's renewable-energy technologies
- Invest in research and development of new break-through technologies that yield higher efficiency and climate benefits
- Ensure new public procurement of environmentally friendly goods and services.

Key longer-term strategies should include:

- Implement and improve on policies that place a suitable price on carbon (e.g. emissions trading and carbon taxes) in order to guide private decision-makers toward low-carbon options.
- Create public-private investment mechanisms to provide the necessary financial resources for new-economy investments
- Reduce and eliminate environmentally harmful subsidies to fossil fuel consumption
- Ensure any new subsidy initiatives are well-constructed and targeted to provide effective incentives for private decision-makers at lowest public cost
- After the crisis, find ways of closing deficits by shifting more of the tax burden to environmentally harmful activities (thereby lowering tax burdens on incomes and employment)

Any crisis represents a natural inflection point and a chance to begin anew. Facing the worst financial crisis since the Great Depression and the worst environmental crisis in human history, we really have no choice but to seize this unique opportunity and to accelerate the transition of the global economies to ones that are more efficient, more competitive and more resilient to external shocks.

Annex: Brief overview of the German stimulus packages

After overcoming its initial hesitations, the German government passed two stimulus packages in the winter of 2008/2009. Both were financed entirely through new debt. The first packet consisted of measures expected to range between 32 and 40 billion euro in value over the course of 2009 and 2010. Expenditures in the second stimulus plan are expected to equal 50 billion over the same time period. Both packages include tax breaks, publicly funded investment and direct aid to some economic sectors. As a response to the crisis, other measures were also passed, primarily aimed at stabilizing financial institutions to enable a resumption of credit lending. The first stimulus package contains green measures worth about 3.8 billion euro (about 9 – 12% overall, depending on expectations regarding the total value). It is not possible to estimate the proportion of the second package going to green measures because the federal funds given to states and local governments have not yet been allocated to specific programs. Table 1 provides a breakdown of the expenditure.

Table 1. Germany's stimulus packages – breakdown of estimated expenditures

	Packet I	**Packet II**
Tax breaks for individuals and firms	21 billion EUR (including 600 million EUR in tax breaks on car tax and biodiesel taxes)	10.5 billion EUR
Other relief measures for individuals and firms	7.6 billion EUR	11.5 billion EUR, including 1.5 billion to auto buyers who retire an old car upon new-car purchase (Abwrackprämie)
Investment subsidies (not including transport)	• Additional 3.0 billion EUR for CO_2-reduction measures in buildings (Gebäudesanierungsprogramm) • 200 million EUR for energy-efficient buildings (Energieeffizientes Bauen)	13.3 billion EUR to German states and communities (Zukunftsinvestitionen der Kommunen und Länder); main investments are in educational infrastructure, whereby energy efficiency and renewables are important components)
Verkehrsinvestitionen	Total: 2 billion EUR • Roads: 950 million EUR • Rail: 620 million EUR • Water ways: 430 million EUR	Total:: 2 billion EUR • Roads: 850 million EUR • Rail: 700 million EUR • Waterways: 350 million EUR • Research on innovative propulsion: 500 million EUR • Multimodal: 100 million EUR

Source: These estimates compiled by Ecologic Institute.

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