

Greening Jobs and Growth Potential in Europe

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GREEN JOBS - A WAY OUT OF THE CRISIS

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Agenda

- Where we are?
- How did we get there?
- What can we do?
- Implications for jobs in Europe

Multi-faceted crisis in Europe

- High unemployment
- Depressed investment
- Uncertain growth prospects (or rather certain low growth prospects)

Low confidence – low investment – low growth loop

Multi-faceted crisis in Europe

- Western EU is in danger of breaking apart in a Northern economic region with strong competitive potential and a Southern region lacking competitiveness
- Both regions seem headed for a long period of very slow growth
- Central and Eastern European countries:
 - Try to join the highly competitive North?
 - Fall back from their impressive economic growth before the financial crisis (which had little effect on the job creation) and share the dire fate of Southern Europe?

How did we get there?



- The environment is a free common good
- Market price much lower than real price

The missing link between energy and financial and debt crises

- E.g. US: borrow money, buy oil (and accumulate debt) and burn it
- Usually, after a crisis, when recovery begins:
 - The cost of basic materials falls in real terms and the price of commodities (food and minerals) slightly rise (10%)
 - This boosted real incomes, supported spending and fuelled recovery
- Today:
 - For the first time in the postwar period, energy and other commodity prices are unusually high for this point of the global recovery
 - High energy and material prices (63% increase since 2008) don't boost incomes and spending

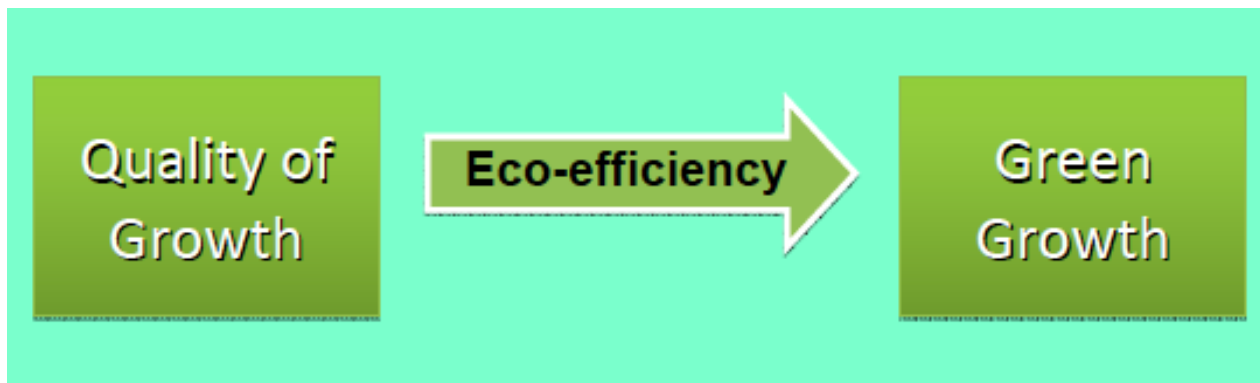
What are the possible answers?

- Austerity followed by growth (Business as Usual)
- Decoupling
- De-growth and a-growth (“prosperity without growth”)
- Green growth
- ...

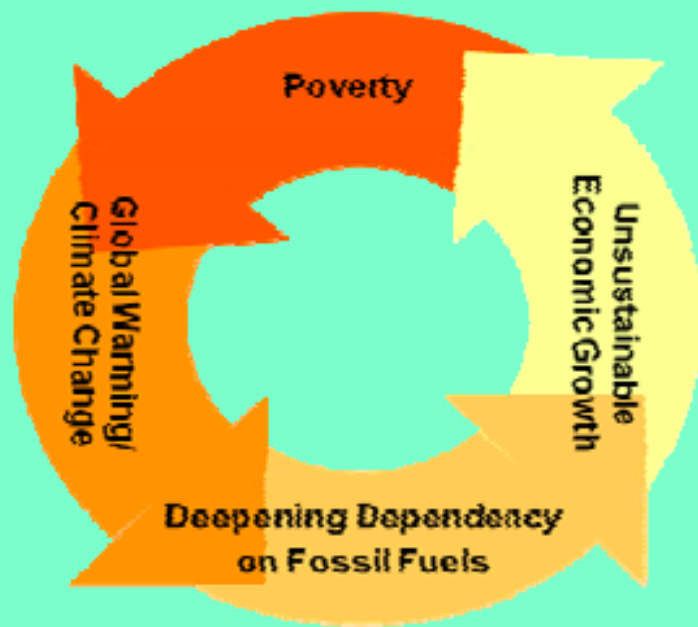
Is green growth an answer?



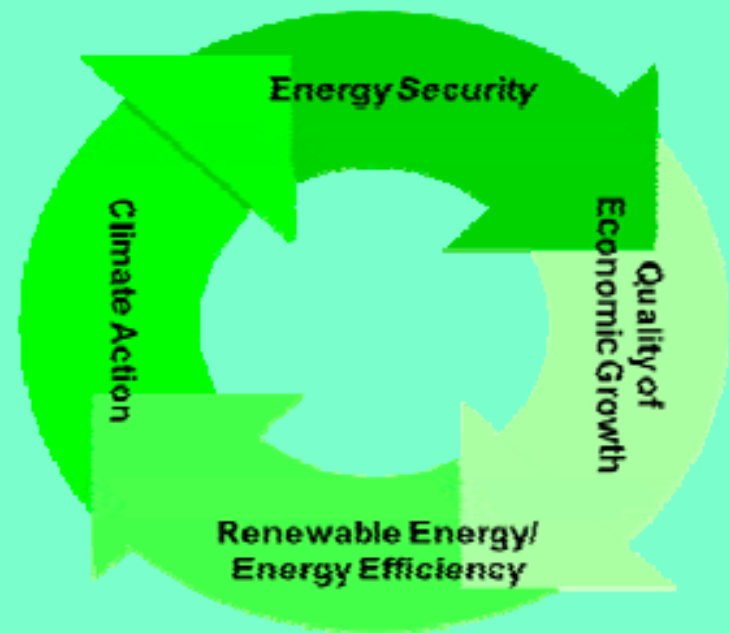
- Price the environment (and the social)
- Make market price equal (or at least close to) real price



Paradigm Shift from **High** to **Low** Carbon Paradigm



Vicious Cycle



Virtuous Cycle

Going green or going for growth?

- Much of the economic debate implies we must choose between going green or going for growth
- Dominant narrative that “green was for before the crisis” and that “now we cannot afford it”
- There is now hard evidence that the real choice for Europe is between green growth or no growth at all
- Use green growth to exit the “low confidence – low investment – low growth loop”

Green growth gets increasing attention

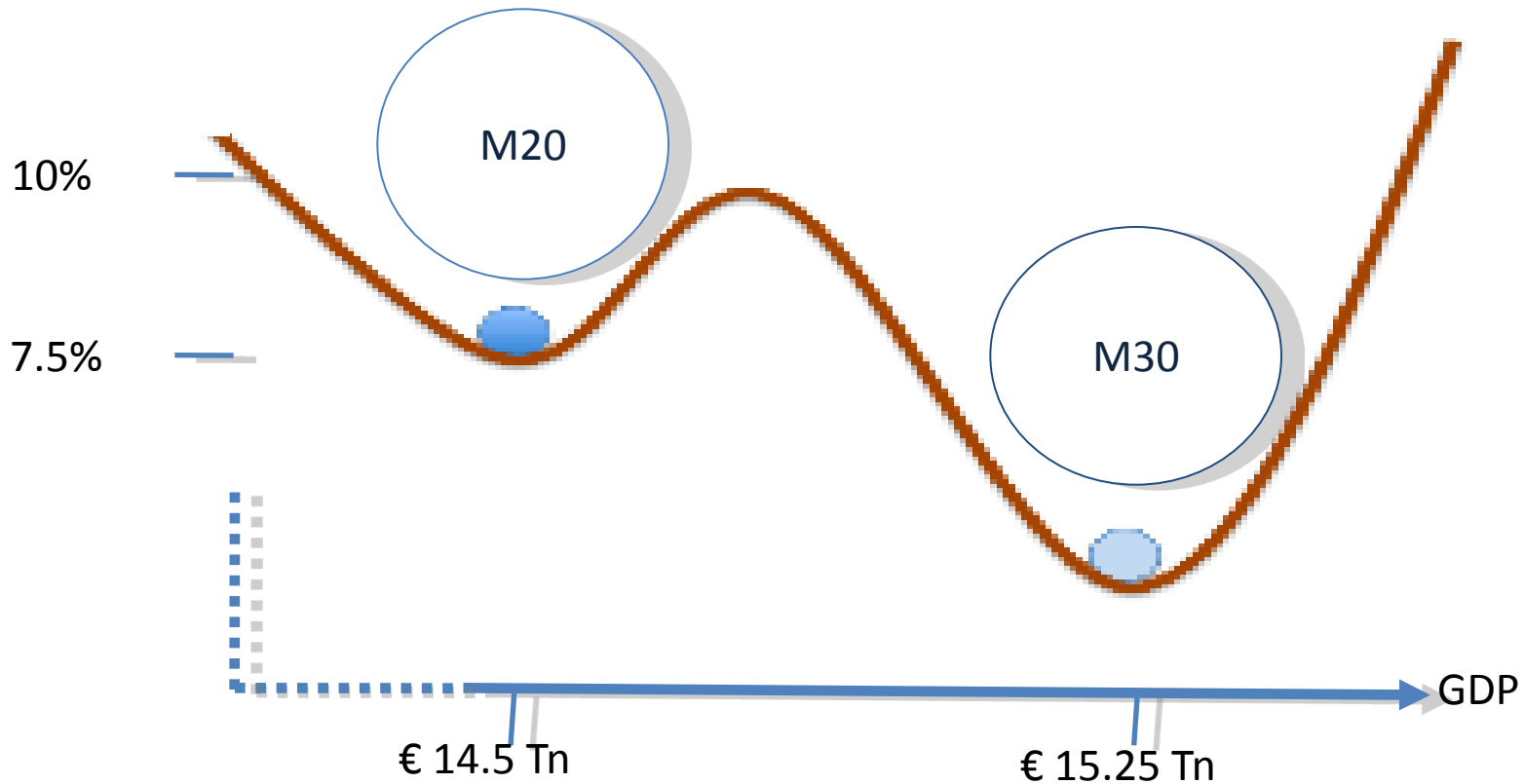
- Korea: “Power green growth, protect the planet”
- China: “Green Growth model”
- Germany: “Meseberg program”
- UNEP: “Green Economy report”
- OECD: “Green Growth Strategy”
- ...

The 20-20-20 EU package before and after the crisis

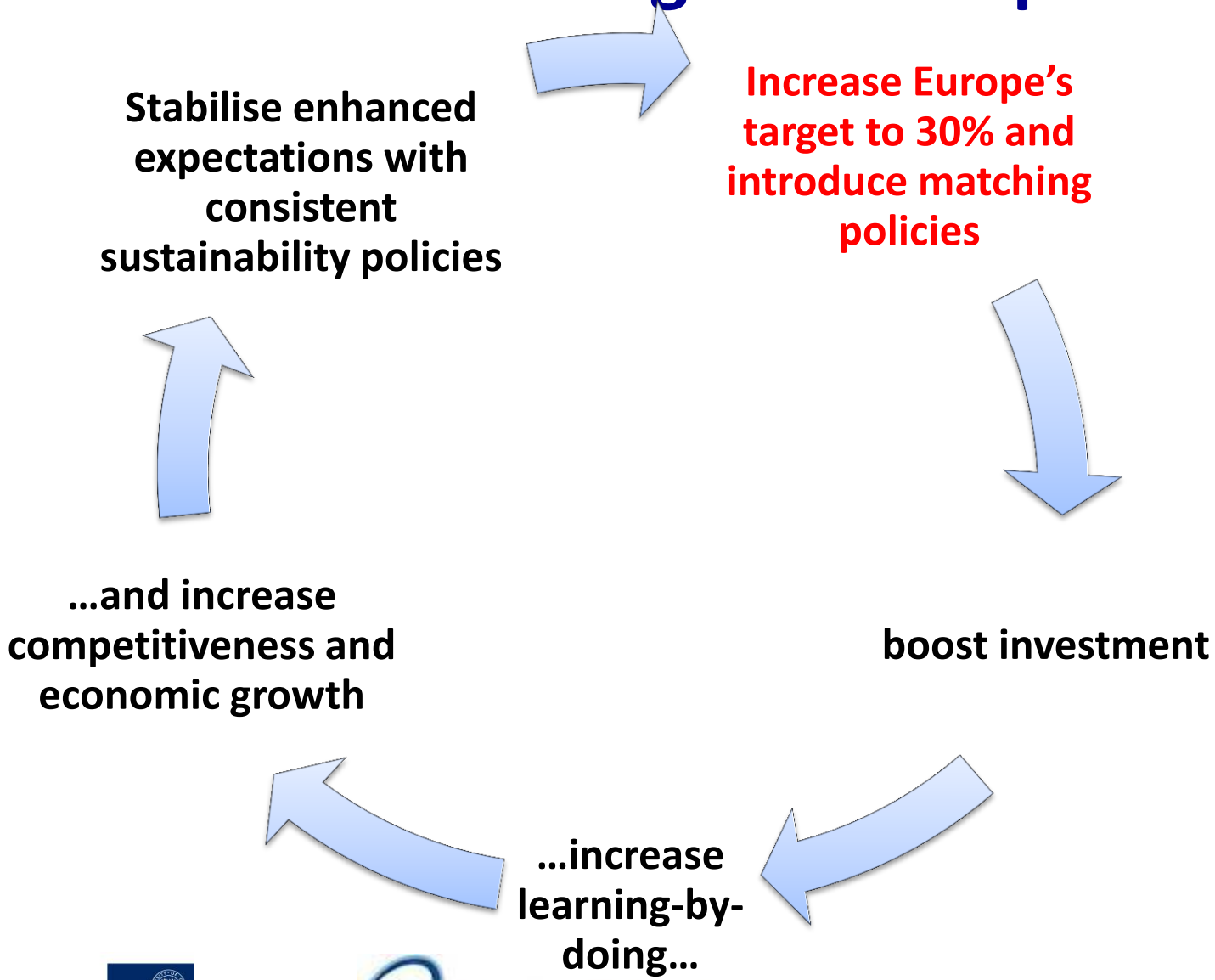
- After the crisis, European GDP down by 4%
- Emissions down by 17% in 2009 compared to 1990
- 20% target cost estimated at €309 billions in June 2008 vs. €152 billions in February 2009 (New Energy Finance, Bloomberg, 2009)
- With austerity + Business as Usual, lower growth rates than before the crisis

Moving from 20% to 30% the emissions reduction target in Europe

Unemployment rate



Moving from 20% to 30% the emissions reduction target in Europe



Moving to a 30% target in Europe

- Such target is plausible, challenging and relevant:
 - ✓ Up to €842 billion GDP increase (+0.6% growth rate p.a.)
 - ✓ Up to 6 million new jobs
 - ✓ Boost investments from 18% to up to 22% of GDP
 - ✓ 30% less GHG emission
- Full report available at www.newgrowthpath.eu

What is necessary to switch to a new growth path? Macro-economic measures

- Move emissions reduction target from 20% to 30%
- Manage EU growth expectations (3%?) with the same commitment with which the European Central Bank manages inflation expectations (2%)
- Incentivize entrepreneurial investment by tax relief balanced with marginal tax increases on capital incomes used for other purposes
- EU-wide strategy to green public procurement (16% of EU GDP)
- Use part of the ETS auctioning revenues and resources from the structural funds to support mitigation efforts in Eastern European countries
- Look for capital low intensive and labor high intensive sectors (energy efficiency vs. nuclear industry)

What is necessary to switch to a new growth path? Micro-economic measures

- Enhance building codes to foster investment in energy efficiency
- Enhance standards for energy efficiency in transport
- Implement individual energy efficiency (renovation of building stock, eco-design products and labeling measures and improvements in manufacturing efficiency)
- Standardize smart grid infrastructures
- Expand vocational education
- Create learning networks of entrepreneurs and businesses developing innovative solutions across Europe

How to fund such programs?

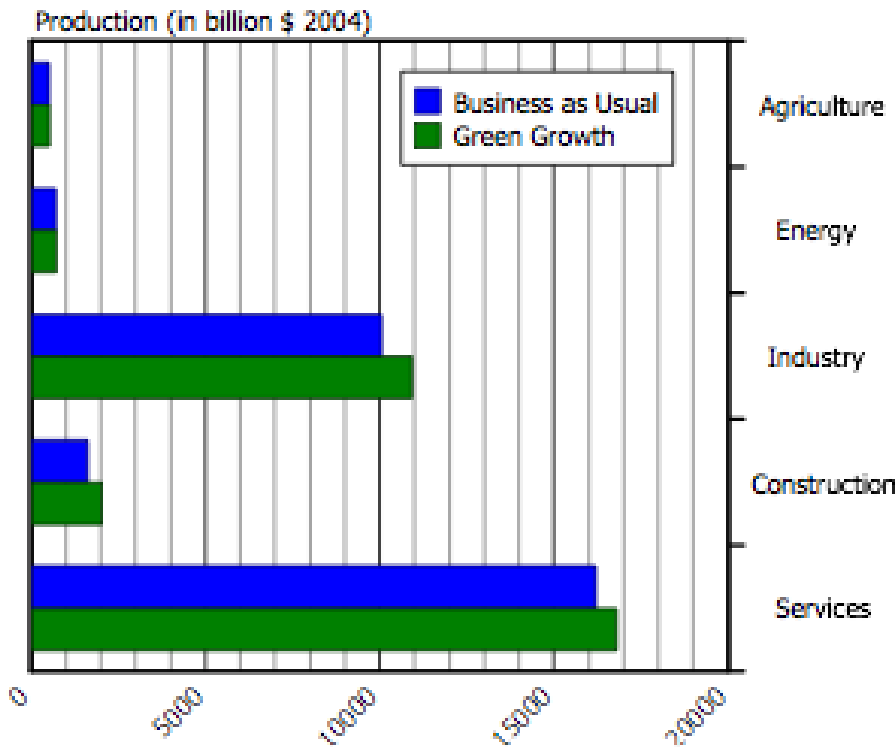
- Use public finance institutions such as the European Investment Bank as seed money to leverage private finance:
 - Promote green investment instruments: green bonds, green mortgages, green indices, green securitization
 - Promote green savings which have an enormous potential to connect savers with profitable green investments
- Set programs to fund energy service companies promoting energy efficiency investments at the level of households
- Set local energy efficiency investment programs (street lighting, public transport, public buildings)
- Set green public procurement programs

Conclusions

- Austerity policies clearly failed. And the ‘proof’ is Spain, not Greece
- Green growth can become a compelling and empowering narrative in Europe
- Use current anti-austerity EU mood as well as the French elections as an opportunity to set EU-wide green growth and get away from austerity
- Pay attention to new member states (e.g. Poland vs. Latvia)
- Climate target embedded in a comprehensive range of measures + setting expectations for growth of the European economy at a more ambitious level can work

Sectoral Dynamics

- Production increase in most economic sectors.
- A major effort to retrofit buildings and enhance the built environment.
- More opportunities than risks for energy intensive industries.



Poland vs. Latvia

- Poland:
 - Transition to a market economy has been a clear success story
 - Doing relatively well during and after the global financial crisis
 - Practiced an independent economic policy (with appropriate use of deficit spending and external devaluation)
 - Relies on availability of own coal resources
 - Environmental issues are much less of a concern
 - Sees climate policy primarily as a reason to worry and is defensive about its general competitiveness
 - GDP growth (%): 5.1 (2008), 1.6 (2009), 3.8 (2010), 3.5 (2011)
- Latvia
 - GDP growth (%): -2.9 (2008), -17.1 (2009), -1.2 (2010), 2 (2011)
 - IMF-led €7.5 billion support package after the crisis
 - Highly dependent on Russia for energy imports and has no import alternatives for gas and oil
 - Energy ‘poors’
 - Frontrunner in the use of renewables (hydro and biomass)

'Climate Protection and Economic Growth' project

Key questions:

- What emissions reduction target is economically, socially and politically feasible until 2030 (2020/2050)?
- How can this target be reached in an economically efficient, socially equitable and politically feasible manner?