HELP SAVE EUROPE WITH A GREEN NEW DEAL

A Call to Action From the Green New Deal Group

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A Discussion Paper from the Green New Deal Group

Introduction

Unease over the economic future of the Eurozone, the rest of Europe and the wider global economy is reaching fever pitch. The austerity measures creating an electoral backlash across Europe are geared to ensure lower levels of government and private debt with great emphasis on increasing competitiveness to try and bring about more export-led growth. In some undefined and unguided way this approach is then supposed to magically rebalance the economies of those countries at present deemed too successful in exporting with those which are performing poorly.

The Green New Deal Group's previous reports successfully predicted the credit crunch and why austerity wouldn't work and provided suggestions for what jobs could be generated and how to pay for them. Now that the global economic future is once again in jeopardy and the debate appears to be shifting from austerity to growth, it is time to clarify what kind of growth, and how to pay for it.

This paper makes the case that:

The present emphasis on export-led growth, whilst benefitting successful economies like Germany and China, will not be enough to enable the rest of Europe to deal with its collapsing effective demand. Simply trying to emulate export titans and expecting countries in some unspecified way to pull themselves up by their export bootstraps is not an adequate solution for most of Europe.

Whilst most of the focus is on more export-led growth, an under recognised import-led threat to the whole of European economy comes from the huge bills run up from importing fossil fuels and raw materials.

What is therefore required is a Europe-wide Green New Deal programme to dramatically reduce the use of fossil fuels and raw materials by increasing the continents renewable energy supplies, ensuring all buildings are energy efficient and revitalising local and regional transport links. This would ensure a huge increase in domestic economic activity and eventually provide the countries of Europe with millions of jobs, vast numbers of business opportunities, substantial tax revenues and a haven for personal savings.

Regardless of whether the Euro stumbles on or breaks up, this move to a securer economic and environmental future for the nations of Europe should begin right away and should become a cornerstone of future economic policies.

As a first step, while the Eurozone is still intact, the European Central Bank (ECB) should immediately announce a Green Quantitative Easing (QE) Emergency Programme for Greece. It has been estimated that there are more than 4 million households in Greece and so its first investment should be 9 billion Euros spent on fitting free solar panels for the occupants of one million south facing roofs in Greece, and a further 4 billion Euros to train a 'carbon army' to install energy saving measures in all Greek homes[i].

The ECB should then provide the necessary funding to extend this Green New Deal approach to all the Eurozone countries. The rest of Europe could introduce its own national Green QE programmes. Since QE involves a central bank getting new money into circulation by creating money and using it to buy assets, this will not increase Europe's debt levels according to the originator of the term 'quantitative easing' Professor Werner, Director of the Centre for Banking, Finance and Sustainable Development at the University of Southampton. He states that since the central bank can simply keep the assets on its balance sheet then there is no need for tax payers to pay or to expand public debt. The assets should simply stay on the central bank balance sheet[ii].

Of course, a Green New Deal is only part of the picture to regenerate Europe. Face to face caring and wider infrastructural renewal such as housing, schools, hospitals, water and sewers systems and maintaining the local road networks will provide the backbone for a labour intensive transition for most countries. The personal care can be paid for predominately by the state, particularly once domestic and international tax dodging are tackled. With some modest state pump priming, the majority of the funding for the rest of the infrastructure programmes can be provided by pension and insurance funds and from personal savings via bonds. The secure returns that can be earned from such investments are just what such funding sources need. The local jobs and business opportunities provided will help rebuild the tax base and allow for an eventual reduction in public debt.

In short to replace austerity with greener prosperity, Europe must shift the emphasis from export-led to domestic-led economic activity and to help achieve the latter should implement a Green New Deal across the continent, whilst cutting Europe's the massive fuel and raw material import bills.

The Problems for Europe

Declining Demand and the False Hope of Export Led Growth

It really is time to ask the simple but fundamental question about what is it that all Europe's bailed out countries, whilst on the one hand coping with lower social conditions and declining domestic demand, will be able to export and to whom? Of course, there will still be export markets but, within Europe, most are likely to be supplied by Germany, protected as it is at present by its artificially low Euro exchange rate and the cheap borrowing available to it via being seen as a safe haven. Many other export markets are likely to be increasingly taken by China with its massive pool of cheap, but driven labour that is fast ascending the hi-tech export ladder.

It is difficult to see how an export-led approach can tackle the real nightmare facing Europe's economy, lack of jobs and hence lack of demand. Whatever exports aren't provided by Germany and China won't give anything like the economic and employment stimulus required to solve these fundamental domestic European problems.

Europe's Enormous Fuel and Raw Material Imports

German Green MEP Sven Giegold's recent report 'No stabilization of the Euro without a Green New Deal'[iii] details how EU member states have to spend more and more for imports of fossil fuels (oil, gas and coal) and other non renewable raw materials. Although the global economic downturn in 2008/2009 has interrupted the continuing growth of import costs for a short period, the MEP expects that member states will soon have to pay as much for their imports of fossil fuels and other non-renewable resources as they did before the crisis.

What is seldom realised is that these high costs of imports have also contributed considerably to the net new borrowings of several EU member states and are therefore, Giegold asserts, threatening the stability of the Eurozone. This increasing dependence on imports of fossil fuels and non-renewable resources raises serious concerns – especially in view of a growing demand in emerging countries like China, India and Brazil which will contribute to rising future prices. The Green New Deal by increasing Europe's renewable energy and its efficiency in energy and resource use could make the majority of such expensive imports obsolete, which in turn would reduce macroeconomic imbalances.

Between October 2010 and September 2011, the 27 EU member states had to pay 408 billion Euros for their imports of fossil fuels and other finite raw materials. The crisis countries - Ireland, Italy, Spain, Portugal and Greece - are particularly vulnerable because of their dependency on oil. The increase in raw material import costs between the first quarter 2009 and third quarter 2011 are equal on average to 50% of their current account deficit in the same period.

Not one European state is exempt from this dependence. Central and Eastern European countries are particularly reliant upon the import of fossil fuels and other non-renewable resources. Even economies generating a current account surplus like Germany are not immune.

A new growth policy for Europe needs to reduce the dependence on imports of fossil fuels and other non renewable raw materials via a Green New Deal. Yet the recent rescue programmes for banks and states in this latest crisis practically ignored environmental and social issues. The opportunity to invest hundreds of billions of public funds in the transformation of our economy was missed. This must not happen again.

The Green New Deal

In essence the Green New Deal involves replacing environmentally damaging growth with labour intensive economic activity that reduces the throughput of energy and raw materials. The reports of the Green New Deal Group[iv] have focussed on energy efficiency and renewable energy in the UK. However there are a huge number of UK, European and international reports detailing the areas that a Green New Deal could cover, the range of jobs generated and how to pay for such programmes. The studies predominantly look at energy efficiency in buildings and business activity, renewable energy, reuse and recycling and localised and greener transport[v].

Paying for the European Shift from Austerity to Green Prosperity

The first step in funding such a huge programme has to be the European Central Bank introducing a policy of Green Quantitative Easing. However it must learn from the past mistakes of the Bank of England and the Federal Reserve. The hundreds of billion of pounds and dollars from previous quantitative easing programmes in the UK and US have largely ended up with the banks in the futile hope that this would result in a substantial increase in lending to business. Instead, QE was used to rebuild the banks' balance sheets and invest in commodity speculation.

To ensure that this does not happen again, we need a different kind of QE, to help the wider economy directly and to implement some badly needed green projects that would enhance the sustainability of the economy and improve the environment—as well as eventually creating millions of new jobs Europe wide.

To take the UK as an example, the Green New Deal Group's report 'Green Quantitative Easing'[vi] called for up to £20 billion of e-money to be printed out of nothing by the Bank of England and spent on fitting free solar panels for the occupants of the roughly 3 million south facing roofs, best suited to capture the maximum amount of energy. Based on last year's figures when around 20,000 installation jobs were created by putting photovoltaic (PV) on 150,000 dwellings, a million home a year programme would eventually create 140,000 jobs. If that were to be extended to all the potential 9 million homes that could benefit from PV installation at a cost of up to £55 billion, then the number of jobs created – and the income generated (wages, profits and tax revenues) would be much larger still.

A further £16 billion of Green QE could be spent kick-starting the Government's Green Deal energy efficiency programme for homes. The Government expects this to support at least 65,000 jobs in insulation and construction by 2015. Local authorities, many of whom are already involved in planning to make tens of thousands more local homes energy efficient, could access a QE Green Deal fund to initially finance such work.

These sums might seem enormous but the Bank of England has already 'spent' ie e-created a staggering £325 billion of new money to mostly purchase government debt ie gilts from banks[vii]. This is around £5,000 for every man, woman and child in the UK. It's purpose was intended to be to help lower interest rates, and make it easier for private banks to lend to British business. But this money has completely failed to reach small businesses in the real economy which urgently need support.

The bankers have had their chance. Now it's time for the European Central Bank, the Bank of England and the central banks in other European countries to help create jobs, stabilize the economy, and support the environment through a package of Green Quantitative Easing.

Green QE for Greece

As a first step, while the Eurozone is still intact, the European Central Bank should immediately announce a Green Quantitative Easing Emergency Programme for Greece. It has been estimated that there are more than 4 million households in Greece[viii] and so its first investment could be 9 billion Euros spent on fitting free solar PV to one million south facing roofs in Greece, and a further 4 billion Euros to train a 'carbon army' to install energy saving measures in all Greek homes.

The ECB should then make available the necessary funding to extend this Green New Deal approach to all the Eurozone countries. Countries in the rest of Europe should introduce their own national Green QE programmes. Since QE involves a central bank getting new money into circulation by creating money and using it to buy assets, this will not increase Europe's debt levels according to the originator of the term 'quantitative easing' Professor Werner, Director of the Centre for Banking, Finance and Sustainable Development at the University of Southampton. He states that since the central bank can simply keep the assets on its balance sheet then there is no need for tax payers to pay or to expand public debt. The assets should simply stay on the central bank balance sheet.

Of course Green QE is just a first funding step, a Green New Deal programme to transform Europe will need huge amounts of money from a wide range of sources depending on the needs and resources of each country. The Appendix below shows the funding sources proposed by the Green New Deal Group for the UK.

Appendix [ix]

Funding a long term Green New Deal for the UK

A UK Green New Deal will need tens of £ billions to pay for the training of a carbon army to install energy efficiency to all UK buildings that need it, thus creating jobs where people live. A large scale national renewable energy programme will also be needed. In addition a nationwide reuse and recycling programme and a transport system that improves local and regional linkages will be required. Funding this would need a new savings and investment infrastructure for funding such a huge shift to a more sustainable UK economy. This would help national and local governments to borrow for public investment, as well as encouraging private investment from individuals and pension funds in greening and reviving the economy.
Policies could include:

Creating a market whereby a minimum of 25% of new pension funds invested annually goes into a diversified range of green investments in return for the tax relief given on the £80 billion contributions received each year. This investment in new jobs, new technology and new business opportunities for the UK will help ensure a decades long programme of economic activity that can create a truly sustainable future for the next generation.

An intergenerational solidarity programme whereby the more affluent of those baby boomers born before the mid-60s are encouraged to support younger jobseekers through investing some of their pensions and other private savings in a massive labour intensive energy-saving programme, with the repayments coming from the resulting lower energy bills. Younger people would be the main beneficiaries through the wide range of jobs created during such a long term multibillion-pound initiative.

Green bonds, which will be issued by the government with the explicit guarantee that the funds raised will be invested in new green infrastructure for the UK. The bonds will carry conventional rates of return for bonds

Local authority bonds are one of a range of ways for councils to raise finance. Such future local authority bond issues could be invested in energy efficiency and provide renewable energy for each of the country's three million council tenants, as well as for all other local-authority-owned or -controlled buildings, such as town halls, schools, hospitals and transport infrastructure

Tax incentives on green savings and investment, so that future ISA (Individual Savings Account) tax relief – costing more than £2 billion a year – is only available for funds invested in green savings

A general tax-avoidance provision to end the abuse of tax allowances. If just half of the tax avoidance in the UK was stopped by this provision and engaging new staff at H M Revenue & Customs it would raise more than £10 billion a year.

A Financial Transaction Tax, commonly known as a "Tobin Tax". Such a tax, applied internationally at a rate of about 0.05 per cent has the potential to raise tens or even hundreds of billions a year. This could be the basis for a Green New Deal in the Global South, playing a significant role in enabling the majority of the world to adapt to climate change as well as dramatically reducing fossil fuel dependence

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[i] These figures are guestimates based on UK experience cited in http://www.greennewdealgroup.org/wp-content/uploads/2012/03/Green-QE-report-CBFSD-Policy-News-2012-No-1.pdf

[ii] http://www.greennewdealgroup.org/wp-content/uploads/2012/03/Green-QE-report-CBFSD-Policy-News-2012-No-1.pdf

[iii] Sven Giegold MEP and Sebastian M. Mack No stabilization of the Euro without a Green New Deal: What is needed is more domestic lead growth, particularly in areas that reduce European energy and raw material imports. May 2012 http://www.sven-giegold.de/wp-content/uploads/2012/05/120418-eurokrise-ENG-final03_webversion.pdf

[iv] http://www.greennewdealgroup.org/

[v] The Campaign against Climate Change trade union group's 'One million climate jobs NOW!' http://ccs.ukzn.ac.za/files/Britain%20green%20jobs%20pamphlet.pdf
The Green European Foundation's 'Funding the Green New Deal: Building a Green Financial System' http://re-define.org/sites/default/files/GEF-

Funding%20the%20GND%20web.pdf; The Robertsbridge Group's '9 good reasons why environmentalists should call themselves economists ...' http://www.robertsbridgegroup.com/what-we-think/9-good-reasons/ ; The German Government's 'A New Growth Path for Europe', http://edoc.gfz-potsdam.de/pik/get/4813/0/2bbb2541f5e08c473dd1a087176b3b49/4813.pdf The European Climate Foundation's 'Roadmap 2050, A Practical Guide to a Prosperous, Low-Carbon Europe' http://www.roadmap2050.eu/ The UN Environment Program's 'Green Economy Report http://www.unep.org/greeneconomy/Portals/88/documents/ger/ger_final_dec_2011/Green%20EconomyReport_Final_Dec2011.pdf ; McKinsey's 'Resource Revolution'; http://www.unep.org/greeneconomy/Portals/88/documents/ger/ger_final_dec_2011/Green%20EconomyReport_Final_Dec2011.pdf and the International Trade Unions Council's Growing Green and Decent Jobs http://www.ituc-csi.org/IMG/pdf/ituc_green_jobs_summary_en_final.pdf–

[vi] http://www.greennewdealgroup.org/wp-content/uploads/2012/03/Green-QE-report-CBFSD-Policy-News-2012-No-1.pdf

[vii] http://www.bankofengland.co.uk/monetarypolicy/Pages/qe/default.aspx

[viii] http://freedownload.is/pdf/table-7-1-household-data-greece-10888911.html

[ix] http://www.greennewdealgroup.org/wp-content/uploads/2012/03/GND_Briefing_Final.pdf p4

This paper is published by the Green New Deal Group.

Meeting since early 2007, its membership is drawn to reflect a wide range of expertise relating to the current financial, energy and environmental crises. The views and recommendations of the report are those of the group writing in their individual capacities.

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