UN-DESA Policy Brief No. 12

A Global Green New Deal for Sustainable Development

Seventy-six years ago, in the midst of the Great Depression, the United States government introduced the New Deal.

The New Deal consisted of a number of mutually supporting initiatives of which the most prominent were:

- A public works program financed by deficit financing. The best known is the Tennessee Valley Authority (TVA), which pioneered an integrated regional development program in an underdeveloped region of the country, and laid the infrastructural foundation for energy provision as well as sustained industrial and agricultural growth in the region,
- A new social contract to achieve greater security and rising living standards for working families program, including in particular the social security system, and
- Regulation of financial markets to protect the assets of citizens and channel financial resources in to productive investment.

The New Deal effectively harnessed the fiscal stimulus for environmental as well as developmental goals. Not only did it help pull the United States out of the Great Depression, it successfully addressed unsustainable agricultural practices that had caused widespread ecological, social and economic crisis in the Midwest, and helped usher in a new era of economic growth and expanding prosperity, especially in the relatively poorer regions.

Today, we are in the midst of another crisis, perhaps even more severe than the Great Depression. This crisis too needs a New Deal, but a New Deal with two additional adjectives: global and sustainable.

First, it has to be global and must include developing countries. The current crises are global in nature and a response will be needed in virtually every country, especially in developing countries where the maintenance of high growth rates is essential to eradicating poverty and meeting the MDGs.

Second, it has to be sustainable, both socially and ecologically. We are in the midst of an ecological crisis. While most attention is focused on climate change, the sustainability of economic growth and development is also threatened by the loss of forests and biodiversity, air and water pollution, and the degradation of natural resources. Therefore the New Deal should seek to direct the public works program into areas that can place countries on a different developmental pathway, one that protects the natural resource base in an equitable manner.

What would the Global Green New Deal look like?

Simply stated, it would have the same ingredients as the original New Deal, namely public work programs, support for systems of social protection especially in developing countries, and mechanisms to protect the assets of ordinary people and encourage productive investment.

Most critically, the public works programs would be launched not only in developed countries, which have the resources to resort to deficit financing, but also in developing countries, whose resources are more limited which are particularly adversely affected by the systemic flaws in the global financial system. At lower levels of development, they are less resilient and thus more vulnerable to fluctuations in world markets. With fewer resources, they are also more often forced to pursue pro-cyclical monetary and fiscal policies, imposing greater variability in their economic performance and affecting long-term growth.

The **Global Green New Deal** (GGND) would be part of the broader counter-cyclical response to the crisis and comprise three main elements:

- Financial support to developing countries to prevent contraction of their economies. This would be provided through the international system.
- National stimulus packages in developed and developing countries aiming at reviving and greening national economies. These would be put in place by national governments.
- International policy coordination to ensure that the developed countries' stimulus packages not only are effective to create jobs in developed countries but that these will also facilitate generating strong developmental impacts in developing countries. Those would be collaborative initiatives of governments of rich and poor countries.

Financial support for stimulus packages in Developing Countries

In his letter to the leaders of the G-20, the Secretary-General of the United Nations has proposed to mobilize $1 trillion of financial support for developing countries to help them engage in an adequate response to the economic crisis. During 2009 and 2010, $500 billion should be provided in the form of enhanced international liquidity for compensatory financing to allow developing countries to refinance their sovereign debts as well as existing bank and corporate debts of their private sectors and accordingly unlock their domestic credit markets and regain access to trade credits and international capital markets. Another $500 billion would be needed in the form of enhanced long-term official development financing and development assistance to cover fiscal revenue gaps and provide developing countries the required space to protect social spending and finance fiscal stimulus packages.[1]

Currently, most developing countries lack the capacity to undertake public works programs through deficit spending as are being envisaged by the developed countries as well as a few emerging economies that have such capacity. Therefore, substantial increases in compensatory financing, official development lending and assistance are needed for developing countries to increase their fiscal space, enhance their scope for countercyclical responses and avoid having to cut into necessary public expenditures.

Even though the resources are needed to overcome immediate balance-of-payments problems and to provide stimulus for economic recovery, they can be simultaneously used to address long-term development challenges. This would include continued investing in education, health, and job creation to meet the millennium development goals (MDGs). In the short-run, resources would also need to be allocated to strengthen social protection systems. This will be critical to prevent millions of people in developing countries who are directly affected by rising unemployment, volatile agricultural prices and declining export demand, and other consequences of the crisis from falling deeper into poverty and thus prevent major setbacks in the progress made towards the MDGs.

The crisis and the required fiscal response should also provide an opportunity to make long-term investments in agricultural development to address the problem of food insecurity and in the "greening" of the economies of developed and developing countries in order to combat climate change.

1 See UN-DESA Policy Brief No. 13 for further detail of the $1 trillion dollar plan.

Making national stimulus packages 'green' and equitable

The United Nations Environment Program (UNEP) has demanded that one-quarter of the three trillion dollars envisaged to be allocated to national stimulus packages by major economies be channeled into environmentally beneficial investments. Those include sustainable transport, energy efficiency, renewable energy, afforestation and reforestation, sustainable agriculture, and biodiversity protection.

This is a timely suggestion. As mentioned, one of the goals of the New Deal was to restore ecological health in the Midwest of the United States, thus addressing social security as well as food security and conservation objectives. Given the multiple environmental challenges faced by the world today, it would be most desirable to attract investment into areas that can help put the global economy on a more sustainable pathway.

However, the UNEP proposal needs to be enhanced through attention to two additional dimensions.

First, as argued above, it is critical that developing countries can, as developed countries have done, develop fiscal stimulus packages to prevent their economies from contracting. These stimulus packages can also provide the opportunity to lay the foundation for a new period of sustainable growth. Given the unmet needs for basic infrastructure, additional investment in such sectors is very likely to have a significant positive effect on growth.

Second, it also needs to be ensured that such investment is targeted especially at poor and vulnerable groups and regions within these countries. In other words, the investment should lead to the revival of growth that is both ecologically and socially sustainable.

For example, the demand for transport is growing dramatically in developing countries. Much of this is in the form of automobiles, which are environmentally harmful, contributive towards urban congestion, and beyond the means of a majority of people in developing countries. A shift to clean public transport is desirable from economic, environmental, and social viewpoints.

Support for agricultural productivity and the creation of markets could be an important feature of national stimulus packages in developing countries, many of which are still highly dependent on agriculture such that shocks on agricultural markets can quickly put high proportions of the population into poverty. Re-invigorating extensions services will be a key component. Special attention would be needed for investments that promote a shift towards ecologically sustainable agriculture. Measures to shield small farmers from price volatility on global markets can also act as important safety nets.

Examples of socially useful public works activities in developing countries include:

- Projects could address water storage and drainage, contributing to agricultural productivity as well as climate adaptation, e.g. in many developing countries simple earthen storage dams could be constructed and existing drainage and canal networks rehabilitated. Digging of wells and basic flood barriers/levees are other options.
- Access to basic sanitation remains a major challenge in developing countries. Improvements could make a major contribution to the achievement of MDG 4, reducing child mortality. Public works programs could target the construction of basic sanitation infrastructure, as well as the regeneration of wetland ecosystems that act as "filters" for watercourses.

A recent study of HSBC Global Research has ranked various governmental initiatives on the basis of their "greenness". This ranking could be adapted to include the social dimension and used to guide national policy making in all countries towards greater environmental and social sustainability.

Policy Coordination, Collaborative Programs and Initiatives

The third component of the Global Green New Deal would be collaborative initiatives of governments of rich and poor countries simultaneously to create jobs in developed countries while generating strong developmental impacts in developing countries. Such initiatives could be pursued in part by using the resources mobilized by developed countries' stimulus packages. But over the longer term, the reforms of the international financial and multilateral trading systems will need to support the investments required to manage the shift to low carbon economies in both rich and poor countries alike.

There are several areas in which investment in developing countries could not only promote national development in those countries but also protect global public goods (such as forests or other environmental resources, or the global climate system by mitigating greenhouse gas emissions) and lead to increased aggregate demand in rich countries, thereby enhancing employment levels in the latter group.

Such initiatives should follow three basic principles in order to maximize their contributions to development goals.

First, they should come on top of and support existing development initiatives and projects in developing countries, by topping off development aid resources and supporting specific elements of national stimulus programs, in order to avoid waste of resources and benefit from already constituted mechanisms for delivery on the ground.

Second, they should not result in promoting unfair competition or disguised dumping of goods or services produced by developed countries that would impede the development of local green industries in developing countries in the longer run. One of the ways to prevent this from happening would be to systematically combine such initiatives with programs aiming at jump-starting local industries.

Third, in line with the nature of stimulus packages, they should be designed to allow for easy phase-out when the crisis is over. For initiatives that have long-term horizons, they should be designed to allow for a smooth transition, with nationally-owned and implemented initiatives and programs, and not result in additional dependence on developed country technologies.

Six examples of such programs can be provided here.

- Investments *in Public Transport in Developing Countries*: A shift to clean public transport is desirable from economic, environmental, and social viewpoints. However, developing countries lack the resources to undertake the massive investments required for this shift. Much of the technology and production capacity lies in developed countries. For example, a subsidized program of clean fuel buses could promote growth of jobs and incomes in developed countries, while potentially reducing greenhouse gas emissions compared to business as usual and relieving urban congestion in developing countries. It will also reduce the import bill by reducing demand for imported fuel, and it will be socially equitable. For instance, a program to supply 100,000 buses per year to developing country cities would cost around $10 billion per year, which would be a small fraction of the total stimulus spending. In order to avoid unfair competition on the supply side, manufacturers from all countries should be invited to join the program and compete on the environmental quality of the buses they provide. In order to avoid waste of resources on the demand side, a scheme of competitive bidding or a clearinghouse mechanism could be implemented to ensure that the vehicles are allocated to those projects that are at a suitably advanced stage of planning. This would enable matching the buses with the greatest degree of support infrastructure and absorptive capacity, thus ensuring efficiency and longevity. This program should be accompanied by a transfer of technology for clean buses to developing countries through licensing of the hybrid bus technology.
- *A Global Feed-in-Tariff Regime:* Energy demand is rising fast in some developing countries. A shift to electricity coming from renewable sources would be desirable on climate-related grounds. However, modern energy is still too expensive for the majority of their populations. Lack of income base and jobs makes even modest payments in cash for energy and fuels impossible. The rapid uptake of renewable energy generation can only be sustained with

simultaneous generation of income from other sources, so that households can effectively pay for energy services. It is expected that the costs of renewable energy will fall as the scale of production increases. However, the scale of production cannot expand unless technologies become competitive. A global feed-in-tariff program would overcome this difficulty by establishing a global fund to provide guaranteed purchase prices to producers in developing countries for a period of 20 years. The electricity would then be sold to final consumers at a lower price, which could be indexed to the income level of the country and of consumers. Such a program will lead to a step increase in demand for renewable energy equipment and infrastructure, and this will generate employment in developed and developing countries. As the production scale increases, the unit costs will come down. At the same time the increase in income of the country would lead to an increase in the price at which the electricity is sold. This mechanism would lead to an automatic draw down of subsidies over time. Delivery mechanisms would have to be carefully designed so as to ensure a level playing field between all competing technologies and on-grid and off-grid operators, and benefit targeted low-income consumers. The program should be accompanied by support to local renewable components industries so that national production capacities are spurred and countries are able to meet a growing share of the increased demand for renewable energy locally, thereby benefiting from additional job creation.

- *Human Skills Transfer Program and Reverse Outsourcing:* The original new Deal had massive transfers of workforce to build large infrastructure. The same could be done now at a global scale. One cornerstone of a truly collaborative support program for developing country could be a scaled-up human capacity development effort. This would consist essentially of a temporary movement of skilled unemployed/under-employed workers into developing countries (engineers, technicians, experts in sustainable agriculture, and qualified blue and white collars) to deliver massive workforce and vocational "train the trainers" in all the areas of their economies that would need greening and where little or no capacity currently exists in most developing countries. This encompasses inter alia energy efficiency in buildings; greening industrial supply chains; deployment and maintenance of renewable energy infrastructure; integrated waste management; water and sanitation; and extension services to promote sustainable agriculture. An innovative way of accomplishing this goal is through "reverse outsourcing", i.e., programs that utilize telecommunications and the Internet to provide expert services in critical areas from developed to developing countries.
- *Building the Global IT Highway:* Strong IT is tied to faster growth and enables the deployment of new and innovative solutions and new businesses. The IT infrastructure is typically provided or heavily subsidized by the public sector. Many developing countries do not have the technologies or the capacity and the resources to develop the IT networks by themselves; the related technology and know-how are typically located in a few developed countries. Massive support to developed country industries for the deployment of IT infrastructure in developing countries would in the near term provide employment in developed countries as well as in developing countries, while creating demand for IT products and services.
- *Energy Efficiency:* This is one of the win-win options in both developed and developing countries. Opportunities to realize both energy cost savings and greenhouse gas emission reductions can be significant through, for example, weatherization of public buildings and improved construction design. However, this will require considerable technical support from industrialized nations, especially by municipalities that have instituted 'sustainable buildings' policies and other such programs at significant scale (see human skills transfer program above). There are also sizeable near-term job creation benefits from such programs.
- *Multilateral Response to Disasters*: Another form of global cooperation is needed in the area of disaster management, which is likely to become increasingly important because of the ecological crisis. This will require investing both in mitigation and prevention to reduce the risk of natural hazards turning into disasters. Sustainable development programs should incorporate measures mitigating the impact of natural disasters. But, as proposed in DESA Policy Brief No. 6 (September 2008, http://www.un.org/esa/policy/policybriefs/policybrief6.pdf), such national policy measures will need to be supported through multilateral efforts, including the creation of a Global Disaster Mechanism. This mechanism would unify existing disaster relief funds and channel international resources to integrated programs of emergency relief and investments in reconstruction, risk mitigation and prevention. ■

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