# Shaping public investments for the net zero world

**Tuesday 25 January 2022**
**14:30 GMT**

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**@globegov**

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# Shaping public investments in a net zero world: the EU perspective

Global Government Forum Seminar

25 January 2022

*Cristiana Belu Manescu*
*Economist – National Fiscal Frameworks and Institutions*
*European Commission*

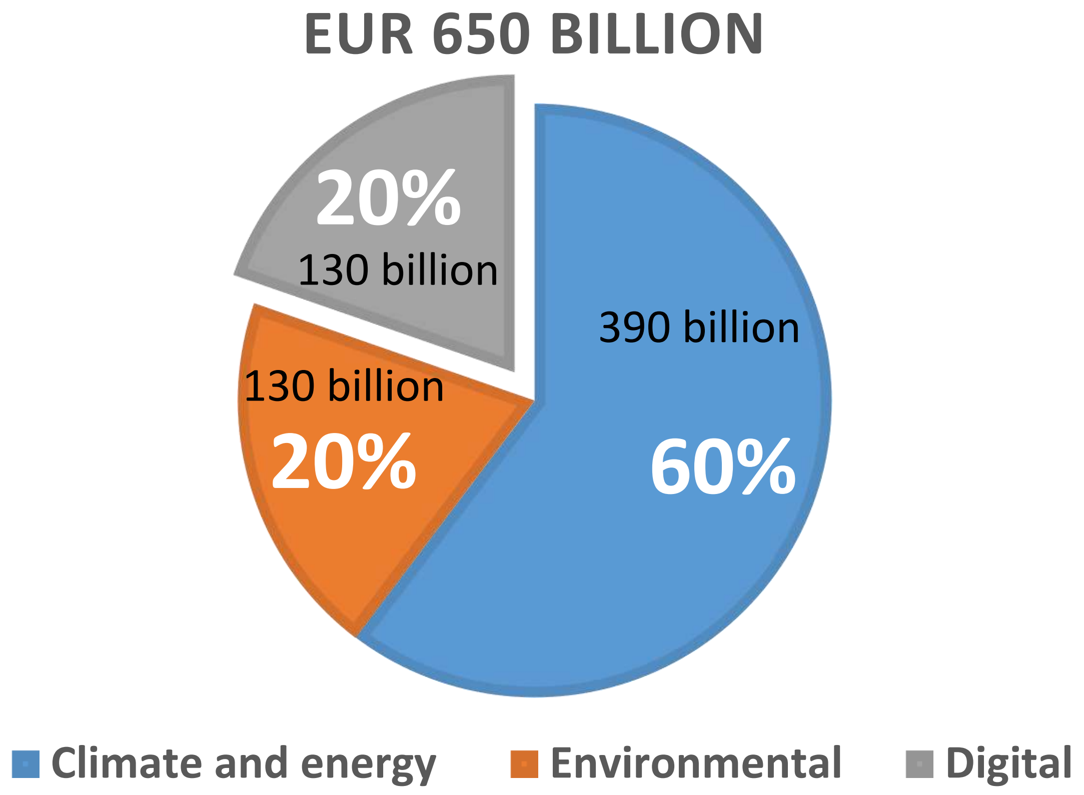
*Disclaimer: Any views expressed on the slides and during the discussion are my own and may not in any circumstances be regarded as stating an official position of the Commission.*

# EU committed to the twin green- digital transition

- **Key European Commission priorities**: European Green Deal and EU digital strategy

- Requiring an **additional EUR 650 billion** annually up to 2030 in the EU, mostly privately funded

- Still, **public investment to play a key role**

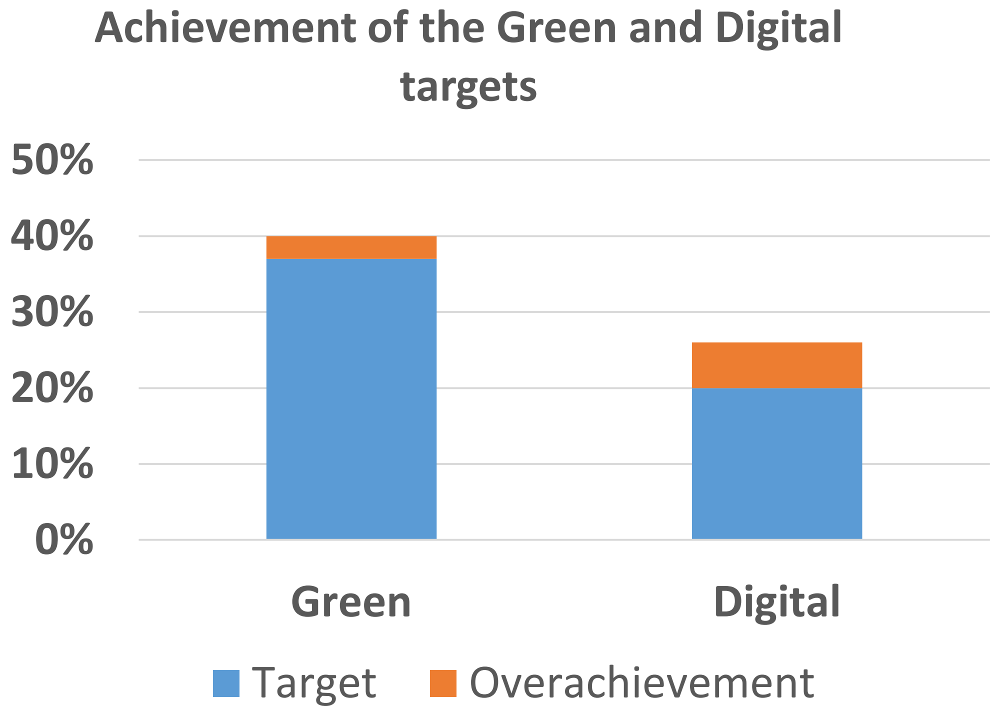



Source: SWD(2020)98 final

# The Recovery and Resilience Facility: strong green and digital focus

- EU's (temporary) policy response to the Covid crisis, worth EUR 723 billion

- Includes 37% green and 20% digital targets




Source: https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html

# Key work streams at the COM Services level

- Green Taxonomy/ Sustainable Finance Strategy
- InvestEU
- Efficiency of Public Investment Management
- Disaster Risk Management and an EU Climate adaptation strategy
- Green budgeting

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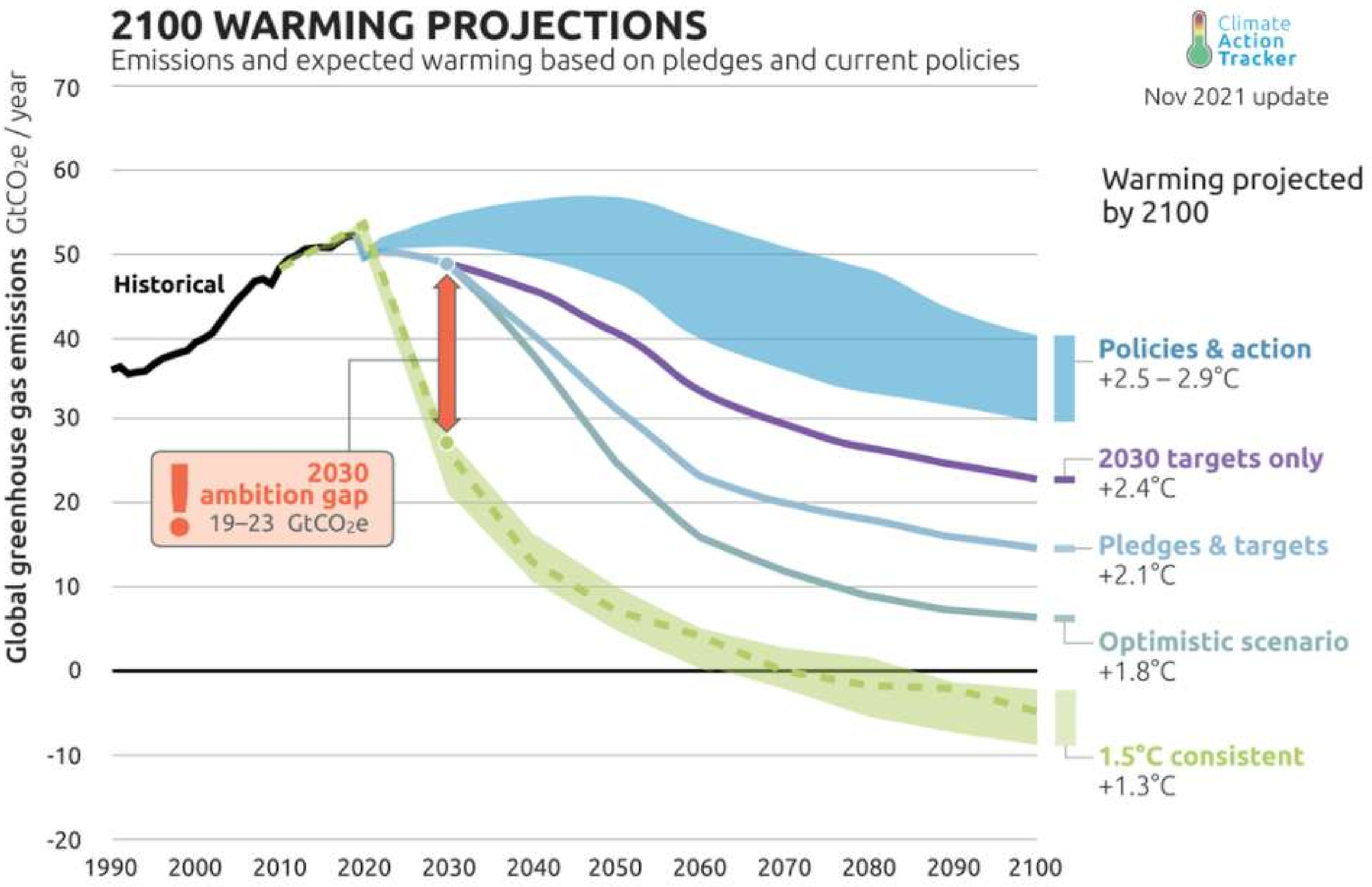
Ipek Gençsü

Senior Research Fellow

Climate and Sustainability Programme

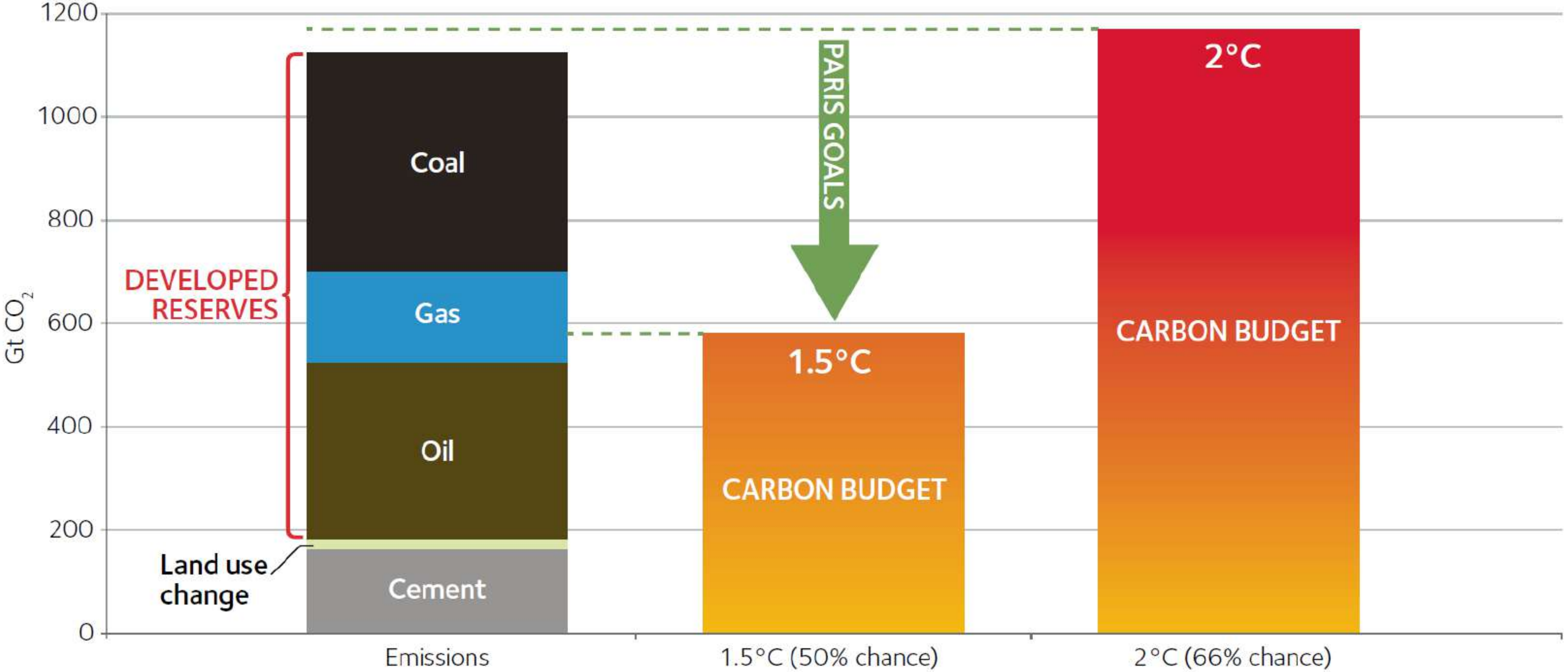
ODI

# Climate Action Tracker: warming projections based on targets & policies



# Carbon dioxide emissions from developed fossil fuel reserves, vs climate budget(s)

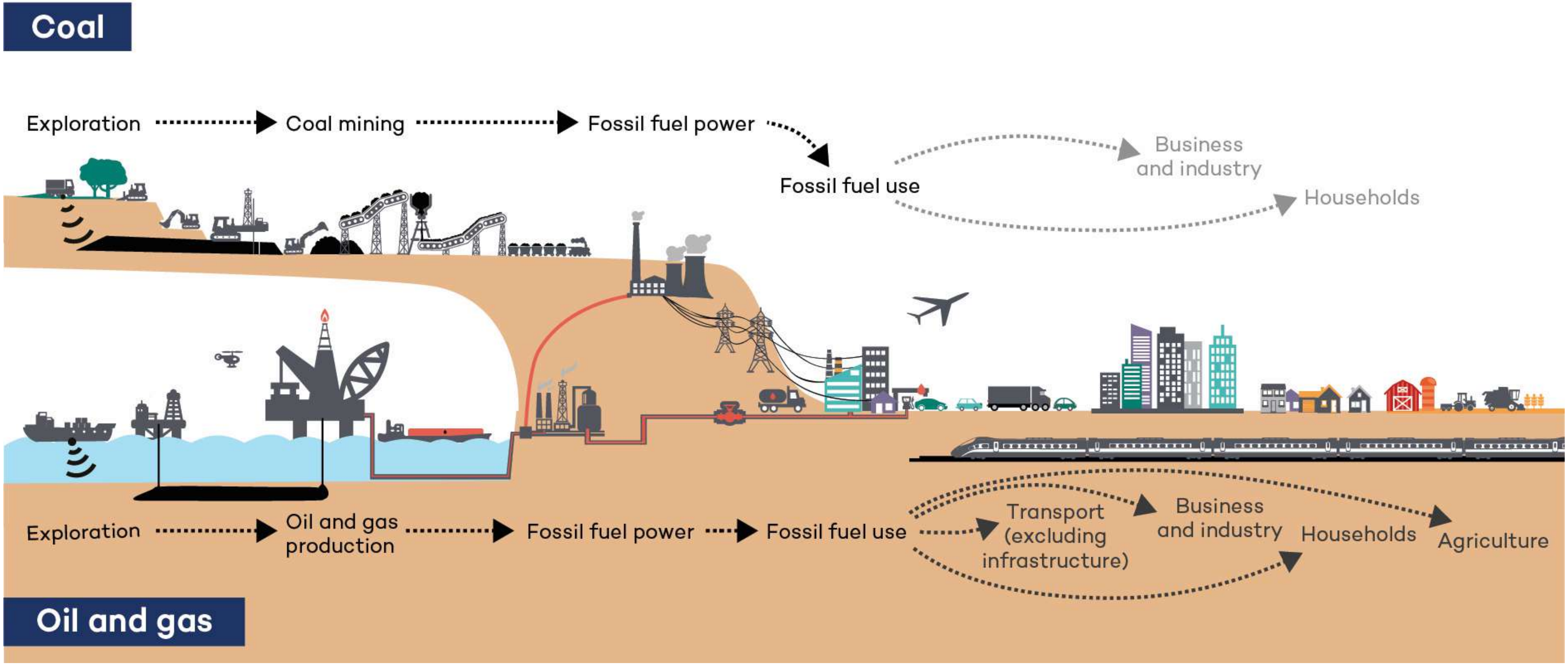
Figure ES-1: Carbon dioxide emissions from developed global fossil fuel reserves, compared to Paris goals carbon budgets




Sources: Rystad UCube, International Energy Agency (IEA), World Energy Council, Intergovernmental Panel on Climate Change (IPCC), OCI analysis[2]

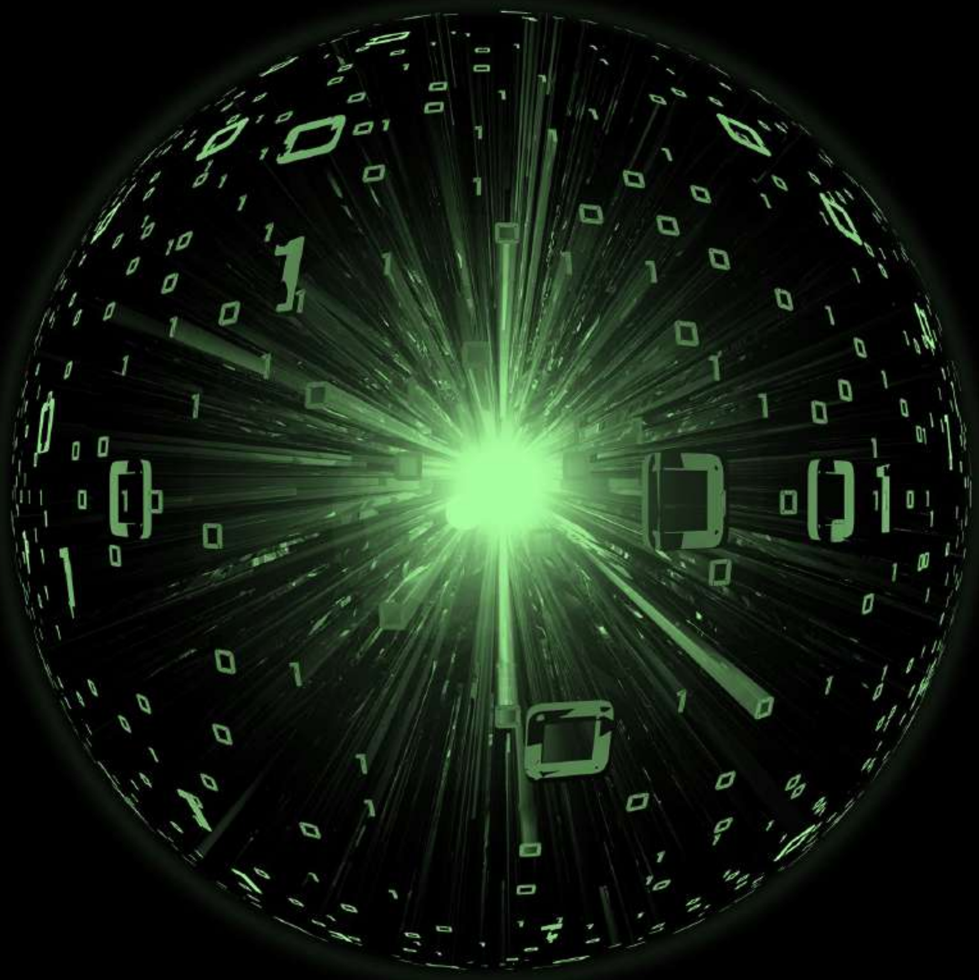
ODI Think Change

# Tracking government support across all stages of fossil fuel production and use




*Source: Doubling Back and Doubling Down: G20 Scorecard on Fossil Fuel Funding (2020)*

Deloitte.



# Global Government Forum

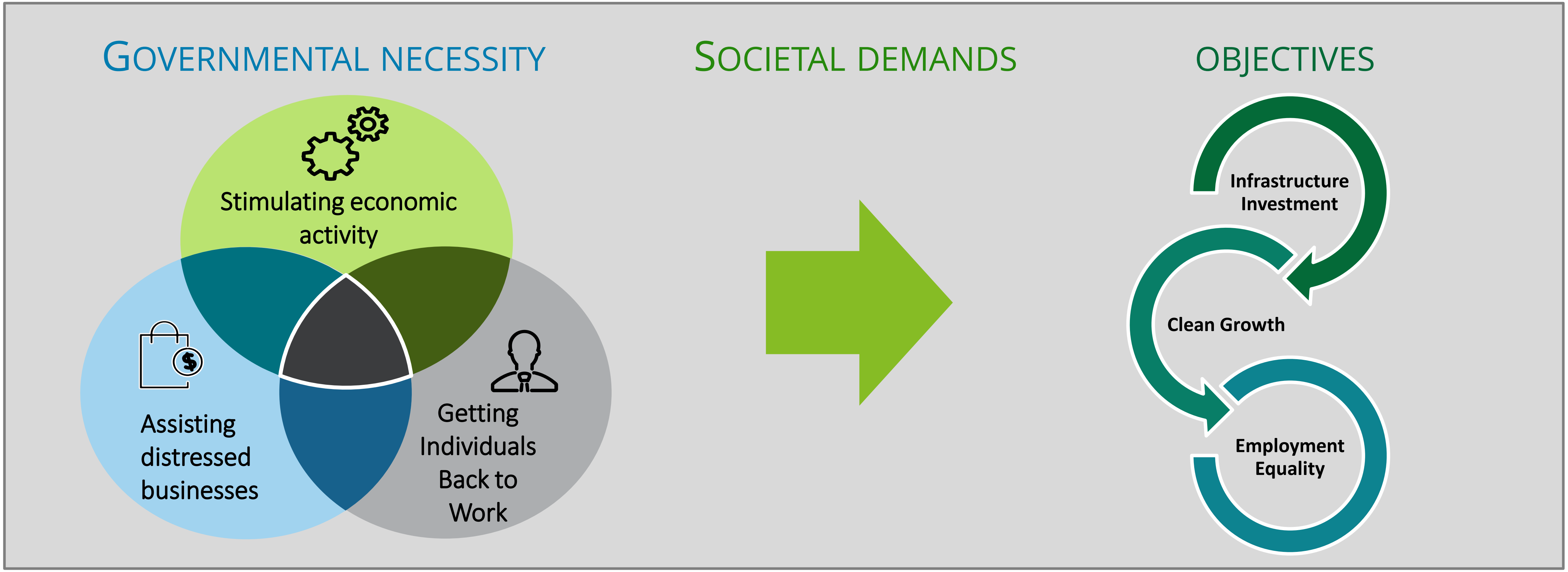
## Shaping Public Investments for the Net Zero World

**January 25, 2022 | Michael Flynn, Global Sector Leader, Deloitte**

MAKING AN IMPACT THAT MATTERS since 1845

# Infrastructure as a Stimulus

Governments need to boost the economy through infrastructure investments with an environmentally friendly focus and adequate workforce training




Infrastructure spend is a medium-term fiscal stimulus – good infrastructure required to underpin any economy

Infrastructure can create significant employment

Infrastructure is an excellent platform for Private Sector Participation – Finance, Expertise and Efficiency

Project Prioritization required to deliver shovel ready projects – create an immediate economic impact

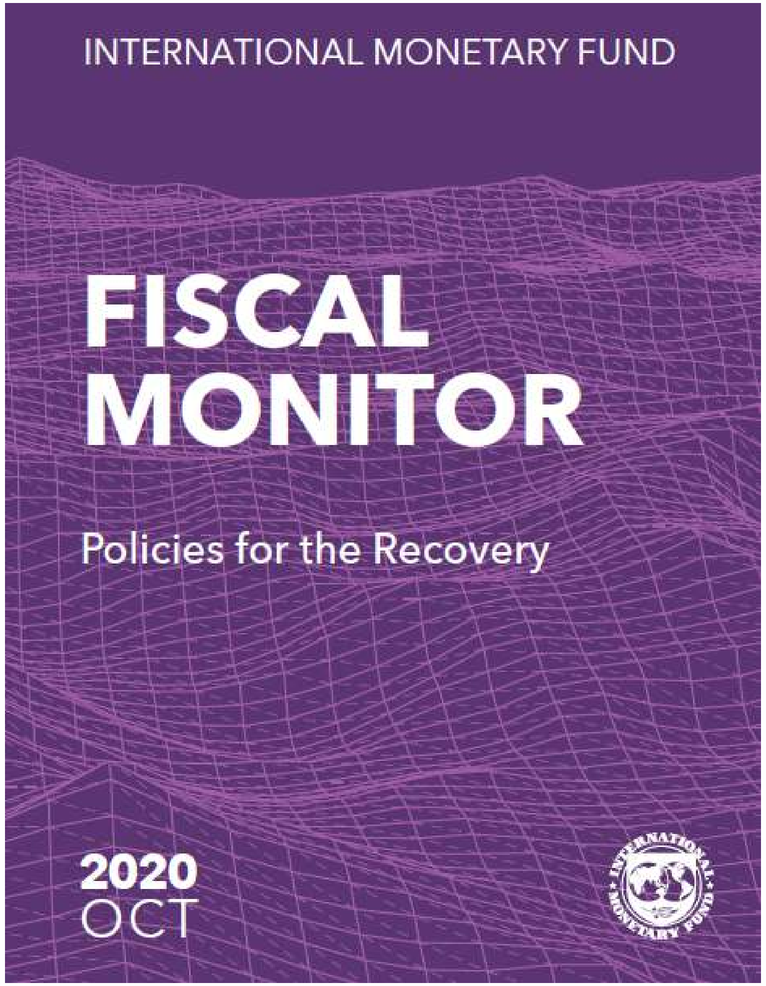
Deliver infrastructure for new post-COVID economy – new definition for 'Essential Assets'

Deloitte.

# The Direct Employment Impact of Public Investment

JANUARY 25, 2022

Mariano Moszoro
Fiscal Affairs Department





CHAPTER 2
PUBLIC INVESTMENT FOR THE RECOVERY

Introduction

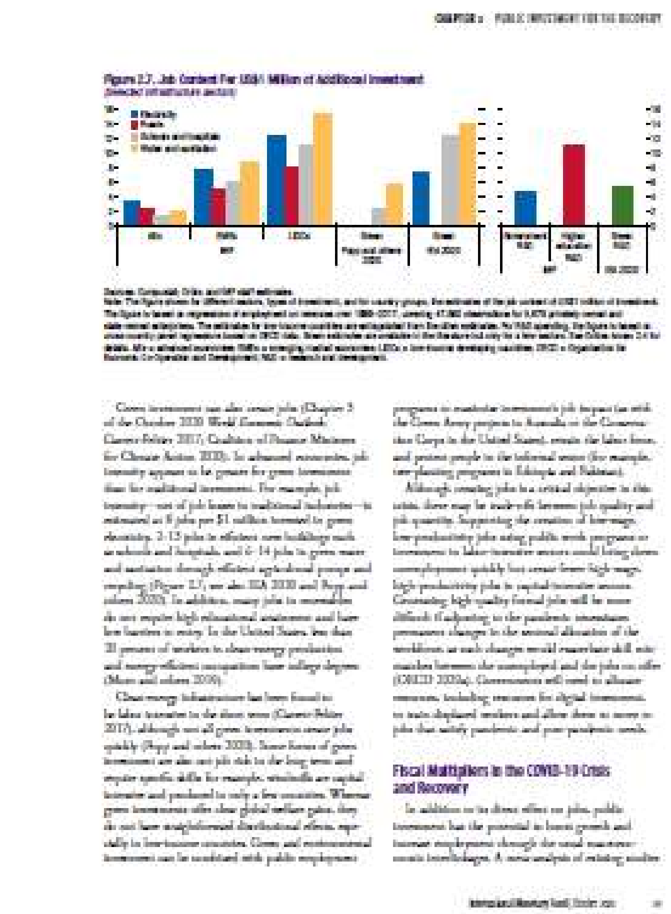


Figure 2.7. Job Content Per US$1 Million of Additional Investment

Fiscal Multipliers in the COVID-19 Crisis and Recovery

- Contribution to Chapter 2: "Public Investment for the Recovery" and Online Appendix 2.4
- Special thanks to David Amaglobeli, Raphael Espinoza, Paolo Mauro, and Cathy Pattillo for comments and suggestions, to Mouhamadou Sy for sharing his dataset, and to Juliana Gamboa and Riki Matsumoto for priceless research assistance

# FINANCIAL TIMES

TUESDAY 6 OCTOBER 2020 | NEWS PROVIDER OF THE YEAR | UK £2.90 Channel Islands £3.20; Republic of Ireland €3.20

**Westminster Spring** Downing Street is facing its own revolution — ROBERT SHRIMSLEY, PAGE 25

**A new cold war** Gideon Rachman explores rising US-China tensions — FT SERIES, PAGE 23

**Masked crusader** Will Trump's illness shift perception of Covid deniers? — NOTEBOOK, PAGE 24

## Overdue Bond Cineworld hit by film delay

A decision by Hollywood studio MGM to pull the latest James Bond film has brought down the curtain on all of Cineworld's British and American cinemas.

Shares in the chain, which also operates the Regal brand in the US and Picturehouse in the UK, fell 36 per cent yesterday as investors took fright amid fears that 45,000 jobs could be lost with the cinema group closed indefinitely.

The delayed release of *No Time to Die* — Daniel Craig's final outing as James Bond, right, which was due to begin showing on November 12 — was the final straw for the company after other expected blockbusters such as the Marvel film *Black Widow* were also delayed.

**Report** page 9
**Lombard** page 14

## Johnson heralds green investment as IMF urges global spending spree

● Plans include 'floating windmills' ● Fund relaxes debt focus ● Emphasis put on growth

CHRIS GILES, GEORGE PARKER AND LESLIE HOOK

The IMF has issued a rallying call to rich countries including Britain to increase public investment in areas such as green technology and digital infrastructure, in the hope of sparking a strong recovery from the coronavirus pandemic.

The call came as Boris Johnson prepared to tell the Conservative party conference that his government would invest in wind energy, confirming his plan to increase Britain's target from 30 gigawatts to 40 gigawatts by 2030.

"The UK government has decided to become the world leader in low-cost clean power generation — cheaper than coal and gas," he will tell the conference today, adding that the UK would invest in "windmills that float in the sea".

Mr Johnson's pledge to "build back better" chimes with the IMF's call for advanced economies to worry less about public debt and instead take advantage of historically low borrowing costs to increase spending on infrastructure.

The prime minister's rhetoric — "it was offshore wind that puffed the sails of Drake and Raleigh" — perhaps outshone the reality of Mr Johnson's financial commitment: £160m of investment in ports and factories to build the next generation of turbines.

Nevertheless his claim that the new investment would create 2,000 construction jobs was in line with the IMF's call for rich countries to plan for new capital spending on green technology.

Mr Johnson's offshore wind deal is part of a package of green energy policies to help the UK meet its ambitious climate targets — including hydrogen fuel and accelerating the ban on the sale of new petrol cars.

The prime minister is expected to reveal the multibillion-pound initiatives at the end of October, just as the furlough scheme finishes, in an effort to show the government has a long-term economic plan beyond the pandemic.

The IMF report marked a shift away from its normal concerns about public finances in rich countries, although it added: "Policymakers should ensure that the amount and quality of public investment are such as not to pose risks by overly worsening debt dynamics."

Paolo Mauro, deputy director of fiscal affairs at the IMF, told the Financial Times the high level of uncertainty in the global economy strengthened the case for higher public investment. "You get a bigger bang for your buck from public investment as investment by private firms is extremely low," he said.

The IMF estimated that increasing public investment by 1 per cent of GDP was likely to raise economic growth by more than 2 per cent after two years — a larger return than it had previously projected. This suggests there is the scope to generate between 2m and 3m jobs in the EU, another 2m in the US and more elsewhere, the fund said. "The place to start is maintenance, which is very labour intensive and can address crumbling infrastructure," Mr Mauro said.

The IMF's Paolo Mauro said: 'You get a bigger bang for your buck from public investment as investment by private firms is extremely low'

**Reports** pages 2 & 3
**Editorial Comment** page 24
**Angus Deaton** page 25

### Briefing

**Ministers face heat on vaccines target**
Ministers are under pressure from Labour over whether plans to vaccinate the entire country have been downgraded to a new target of vaccinating less than half the population.— REPORTS, PAGE 2

**Venezuela's president closer to UK gold**
Nicolás Maduro inched closer to gaining control of $1bn of gold in the Bank of England's reserves after winning a court ruling over the issue of who the UK recognised as Venezuela's legitimate leader.— PAGE 3

**Nvidia to build British supercomputer**
The US chipmaker is to pump £40m into building Britain's most powerful supercomputer in Cambridge, supporting AI research for drug discovery and other healthcare uses.— PAGE 14

**Alibaba to take 10% stake in Dufry**
China's Alibaba plans to take a stake of up to 10 per cent in Switzerland's Dufry, the largest operator of duty-free shops, as part of an emergency SFr700m ($764m) capital raising.— PAGE 9; LEX, PAGE 26

**Trump receives cocktail of medications**
Doctors have administered Donald Trump a mix of drugs to battle his Covid-19 infection that might not have been given together before to an individual patient.— REPORTS, PAGE 8; NOTEBOOK, PAGE 24

**New-car market hits reverse**
The new-car market suffered its worst September in two decades — only 328,041 cars were registered — as economic uncertainty hampered trading in what is usually the second busiest month.— PAGE 2

**BMS to acquire MyoKardia for $13bn**
Bristol-Myers Squibb is buying the drugmaker MyoKardia for $13.1bn, at a more than 60 per cent premium to Friday's closing price, as it seeks to grow its cardiovascular portfolio.— PAGE 10; LEX, PAGE 26

### Datawatch

**Response to Covid**
People's views on their country's handling of the pandemic (%)
Disappointed | Proud
Germany, Netherlands, Italy, Poland, France, UK, US
60 0 60
Source: More in Common

Perceptions differ widely about each country's handling of the virus. While 68 per cent of Germans say their government's response has made them feel prouder of their country, only 29 per cent of people in the US said the same.

- IMF Working Paper and "Chart of the Week" blog
- Ample press coverage
- Disclaimer: No relation between the frontpage news ;)

# Background and key question

- COVID-19: record-high unemployment, ~495 million FTE jobs lost in 2Q2020 (ILO 2020, September)
- Public works programs: Great Depression, ARRA...
- **How many jobs can be created by increasing public investment?**
  - By sector
  - By income group
  - Parametrized with labor intensity and labor mobility

# Overview

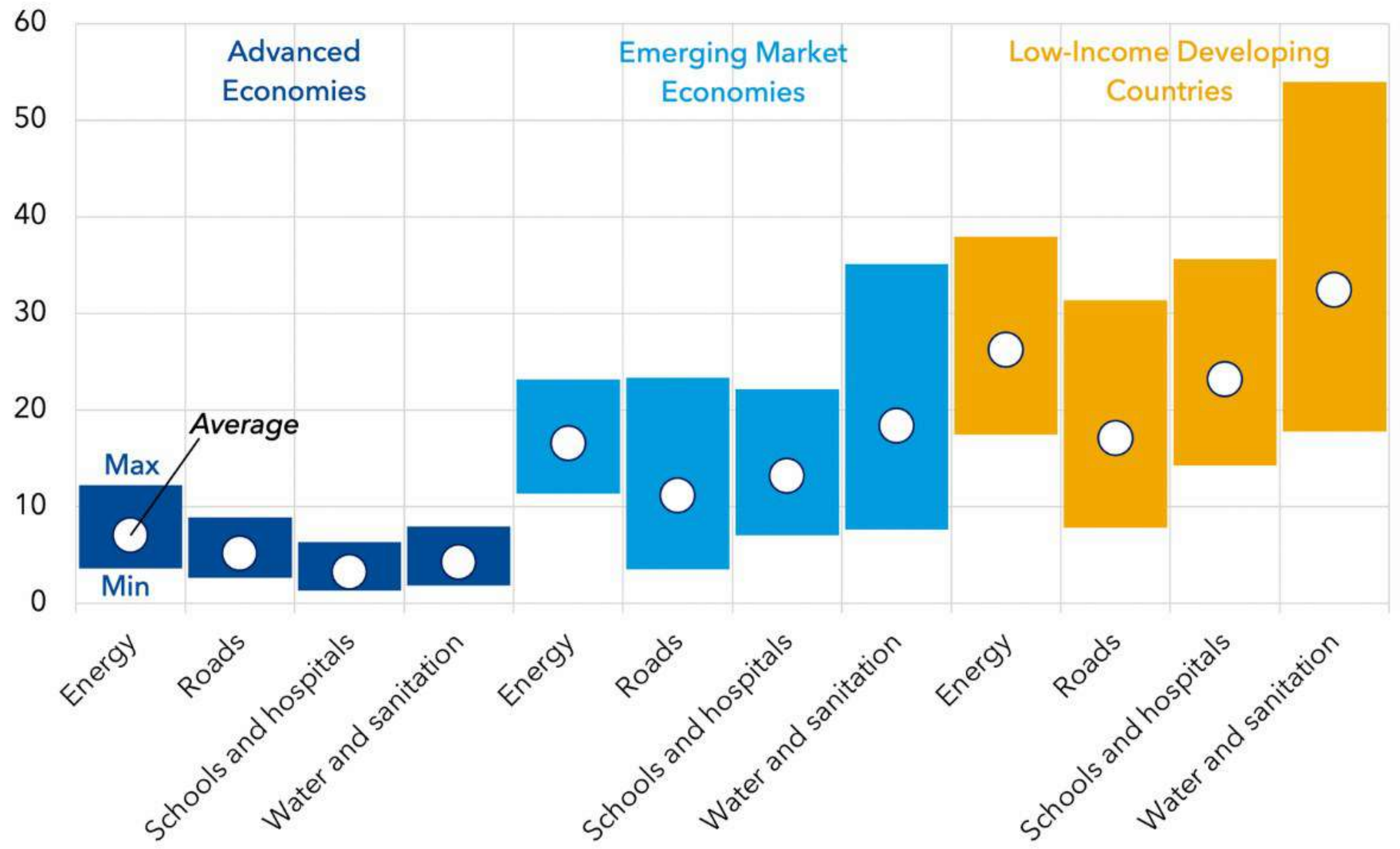
- **Scope**
  - Education/health, electricity, roads, and water & sanitation
  - AEs and EMEs; extrapolation to LIDCs
- **Methodology**
  - Public works contracted to construction companies (rarely government payroll)
  - Large micro panel of *construction companies*: 1999-2017, +48k observations
  - Estimate employment impact per US$1 million invested
- **Results**
  - Δ US$1 million → 3–7 jobs in AE, 10–17 jobs in EME, and 16–30 jobs in LIDC
  - Green investment and R&D component → higher employment effect
  - **1% of GDP in public investment → +7 million jobs worldwide**

4 sectors,
3 groups

micro

macro

# Summary—Job content per US$1 million




Sources: Compustat, Orbis and IMF staff calculations.

# Welfare and political economy considerations

- **State-Owned Enterprises (SOEs)**
  - 3% of labor force, on average 30% higher job intensity than private firms
- **PPPs not panacea for limited fiscal space**
  - ≠ “free” money: pecking order driven by profitability and enforcement of property rights
  - Fiscal space ↔ state capacity necessary for effective regulation
  - ... but if no fiscal space, state capacity likely weak too → private sector unlikely to fill void
- **Policies on greening the recovery ought to be carefully designed to avoid backlash**
  - Short-term labor intensive (Garrett-Peltier 2017); but not all (Popp et al. 2020)
  - Some green investment also not job rich in the long term and require specific skills
  - Green investment = global welfare gains (Hicks-Kaldor); debatable Pareto efficiency for LIDCs

# Thank you!