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How to finance a Global Green New Deal

Private capital has failed to fight the climate crisis. It's time to rehabilitate public investment — and coordinate it globally

The international community, in its commitment to delivering the Sustainable Development Goals and the 2030 Agenda, is making an ambitious attempt to ensure an inclusive and sustainable future for people and the planet. But little more than a decade is left to meet the Goals and efforts so far have fallen considerably short. Delivery now depends on a coordinated investment programme at an unprecedented scale across the entire global commons.

Part of meeting the 2030 Agenda involves delivering development that produces net-zero greenhouse gas emissions. Significant investments will be needed to improve energy efficiency and reduce the sensitivity of energy demand to economic growth, and increased production of renewable energy sources is essential. But undertaking the investments needed to cool down the planet cannot be detached from those needed to pull up the people.

Mobilising investment quickly and at scale will be challenging for many national policymakers: not least for developing countries but also for some advanced economies where recent sluggish investment is a concern, many acknowledging serious deficits.

Public finance under stress

With public finances under stress since (and as a result of) the 2008 financial crisis, a consensus has emerged that the required resources can only come from governments partnering with the financial institutions they helped salvaged from that crisis. A string of measures, marshalled under the call to 'blend' and 'maximise' finance, have been proposed that would channel public money into 'de-risking' big investment projects while employing securitisation and hedging techniques to bring in the private investors. However, there is little evidence that such measures

have unlocked the private capital to scale up existing infrastructure programmes let alone those implied by the climate crisis.

Moreover, such financing tends to be more expensive than public financing alone as the public sector assumes the risks that should be borne by private investors without gaining additional benefits. Subsidies and risk guarantees for private investors can therefore waste scarce public resources, with governments often finding themselves with binding financial obligations even when failed PPP projects have had to be taken back into public ownership.

Despite the damage caused by the 2008 financial crisis, banks – both traditional and shadow – have returned to the business of trading financial assets underpinned by poorly regulated private credit creation. There seems little likelihood that the further expansion of such instruments will bring about the desired shift in investment patterns, especially in what are seen as the riskiest environments (as is the case for many climate-related investments). Moreover, the crisis serves as a stark reminder that the pro-cyclical and inherently volatile nature of deregulated financial markets and the predatory strategies employed by rent-seeking financial institutions are at odds with inclusive and sustainable outcomes.

Global coordination for 'green' productive transformation

A globally coordinated reflation strategy is needed instead, led by the public sector and with a focus on structural transformation and environmental recovery.

A significant, well-planned and stable pattern of public expenditure can crowd-in private investment, support employment creation, boost wages, and trigger technological advances for this 'green' productive transformation. Further, an effective public sector can help lift supply constraints, especially in developing economies, and ensure that credit creation and financial conditions serve the real economy, rather than the other way round.

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The crowding-in of private investment uses public investment to frame a macroeconomic environment in which private investors can find profitable projects. 'Blending' finance, on the other hand, focuses on subsidising private investment on a project by project basis.

investment, raise living standards and ensure a just transition.

From this perspective, investment in infrastructure provides a unique opportunity to transition to a less carbon-intensive, and ultimately 'decarbonised', global economy. This is already providing the impetus for discussing 'green new deals', in the United States, UK and EU.

However, as the latest UNCTAD report makes clear, the systemic pressures behind environmental and economic breakdown means that a change of direction by advanced economies is not enough. Increased public investment, redistribution measures and financial reform will be even more essential in developing countries, where output and population growth will be fastest in the coming years, with policy coordination across all parts of the global economy a prerequisite for success.

Recasting the Depression era's signature policy on a global scale has the potential for generating the required income and employment growth across all countries as well as ensuring climate stabilisation, cleaner air and other environmental benefits. This process can drive developed countries closer to full and decent employment and help achieve more diversified economies and improved working conditions in developing countries. Income distribution will also improve since many of the jobs created by green investment are inherently local.

National policies and international regulations are both needed

If this Global Green New Deal is to deliver, states will need sufficient space to implement proactive public policies to boost investment, raise living standards and ensure a just transition. Targeted measures and support, particularly with respect to skills and infrastructure provision, will be required in developed countries to ensure all communities can pursue cleaner business and employment opportunities, particularly those that have struggled in the wake of the hyperglobalisationjuggernaut; specific industrial policies will be required in rapidly urbanising developing countries to help leapfrog the old, dirty technologies.

Guaranteeing the policy space to undertake such programmes is also a prerequisite for encouraging those states to cede, where appropriate, sovereignty to international bodies to establish international regulations and forge collective action. Accordingly, the Global Green New Deal will

require a thorough audit and, where necessary, rolling back of free trade agreements and bilateral investment treaties that have, over the past 30 years, unduly restricted policy space.

A multilateral mechanism for restructuring sovereign debt is therefore integral to meeting the investment demands of a Global Green New Deal.

Estimates of the required additional investments are subject to all kinds of caveats but will likely amount to 1 to 2 per cent of GDP for several decades, much of it in lumpy and long-term projects. Accordingly, an ambitious programme of financial reform is required to make future savings available ex ante and to shift the focus of profit-seeking away from speculation towards productive investment.

Support for green finance – development and central banks

Within a more stable financial framework, the state can manage credit in a variety of ways. Direct credit controls became unfashionable in the era of 'efficient markets'. Yet incentives (e.g. placing government deposits) and disincentives (e.g. portfolio restrictions) can be effective in steering credit to the most productive investment opportunities. Governments can achieve this even more directly by setting up their own development banks, and by engaging central banks, which have more space than is sometimes envisaged, to resume their traditional role of creating and guiding credit to the areas of the economy where it is needed most.

Central banks should fully support green bond issuing and green finance by public banks and governments, including by acting as buyer of last resort. Doing so will mean facing up to the 'tragedy of the horizon', realigning the narrow and short-term focus of much monetary and financial policymaking (and modelling) with the long-term adaptation and mitigation challenges linked to climate change. The recent establishment of the Network for Greening the Financial System shows that some central bankers are starting to respond to the risks of climate change, with some members already offering loans at below market rates to financial institutions to support green lending.

The IMF should be tasked with reducing speculative financial flows and augmenting stable capital flows in support of productive, low-carbon investments, including through the monitoring and elimination of illicit financial flows. Policy coordination will also be essential to resolve trade-offs between growth targets, financial stability and environment protection, and to prevent national policy actions that could trigger a

regulatory race to the bottom.

For many developing economies, the pressures from servicing their external debts limits their mobilising resources for productive investment; and when environmental disaster strikes – as it did recently in Southeast Africa – any hope of meeting the Sustainable Development Goals by 2030 is extinguished. A multilateral mechanism for restructuring sovereign debt is therefore integral to meeting the investment demands of a Global Green New Deal.

Development banks across the world, at the national and global levels, will need to work together to help countries identify and finance low-carbon, high-productivity activities and design appropriate industrial policies, to scale up their resources in sustainable infrastructure, and to support a just transition for workers and communities. The required capital injection for these banks could come from recovered illicit financial flows, including a clampdown on tax avoidance by transnational corporations and high-wealth individuals.
Seventy-five years ago at Bretton Woods, bold thinking animated the discussions around establishing a multilateral system that would extend the new deal to the international economy. This is needed again now to combine the desire of prosperity for all with a determined commitment to heal the planet.

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