

Managing a European Recovery: The Case for Public Spending for an Energy Transition

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5/1/2013

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The public debate about a European economic recovery has atrophied in a stimulus vs. austerity, north vs. south blame game. Far too little attention is devoted to the question into which kind of investments stimulus funding should be channelled and what a long-term sustainable European recovery may look like. This article argues that public debate should shift from un-constructive criticism to constructive engagement. It suggests that instead of expanding funding to prop up ailing or outdated business models, Europe should adapt to the shifting centres of economic gravity, harness its comparative advantages, and manage its recovery by developing alternative energy technologies and building a concomitant industry. Europe will have to recognise that the private sector cannot accomplish such a recovery alone; overcoming market barriers to developing new economic sectors requires a sustained political commitment. In the long term, such an approach to recovery promises to deliver energy security and a more sustainable energy system, the creation of a viable export sector, and many new well-paid jobs with more equitable economic benefits than are offered, for instance, by the financial sector.

Let's debate Europe's recovery rather than staking out blame for its crisis.

Giant pandas have notoriously narrow windows for mating. Successful reproduction of captive animals requires meticulous planning: monitoring of hormone levels, gauging the compatibility of partners, and setting the right environment. Similarly, economic growth has historically relied on the visible hand of the state to bridge market failures and to facilitate the development of new technologies. By neglecting this point, the ongoing debate over the European economic crisis unnecessarily limits policy options for navigating the recovery. Indeed, numerous column inches are devoted to spurious [exchanges of blame](#) in which northern countries, viz., Germany, castigate the peripheral ones for their supposed profligacy and prescribe austerity along with structural reform as the cure, while the PI(I)GS rail against the imposition of spending cuts and demand larger stimulus measures. However, even the IMF has [issued warnings](#) about the growth-choking effects of austerity programmes. But how best to spend stimulus funds? Ideally a stimulus should avoid being spent where it has little prospect of fostering sustainable growth, e.g. on the entrenched and over-protected sectors that require reform or to appease a political clientele (offerings of new positions in the civil service), to reflate the housing market or ailing manufacturing industries.

Rather than hoping for recovery on the basis of dubious fiscal policies (see the [furore over Reinhart-Rogoff](#)) or perpetuating stagnant business models, Europe would do better to grow its way out of recession by creating new markets for its exports. Yet, what could Europe export that would lead to a viable business model and sustained growth? After all, the once-sleeping giant panda, China, has taken over manufacturing, while financial institutions deliver benefits disproportionately to their partners and shareholders. One answer lies in recognising that prosperity in China, India, and other emerging economies will lead to unprecedented demand for energy, which could be met by leveraging Europe's [comparative advantage](#) in alternative energy technologies. Hence, by adapting to the new centre of economic gravity Europe could emerge from its downturn by developing a new business model for sustainable growth.



Compared to other OECD countries like Canada and the U.S., European ones enjoy [higher levels of energy](#)

[efficiency](#). Indeed, European companies lead the world in developing and deploying hydro, nuclear, and wind technologies. Efforts are under way to bring carbon capture and sequestration (CCS) as well as off-shore wind and tidal power to the market. Such a dominant position, however, is at least partially due to geography (higher population density) and to foresighted policy planning in the aftermath of the oil shocks of the 1970s. For example, [Denmark began a costly transition](#) from reliance on fossil fuels to a more diverse portfolio incorporating wind. Government support of the nascent wind industry has resulted in nearly a third of Denmark's power needs being met by this renewable resource, which has led to payoffs in terms of lower CO₂ emissions and greater energy security. More important, government support for wind reduced the capital cost of turbines to the extent that private companies were able to commercialise the technology and capture a stream of revenues by providing follow-up services. Without support schemes and R&D funding, there are simply too many market barriers for private efforts to reach the economies of scale necessary to commercialise the technology and its spinoffs. While the oil shock spurred Denmark's transition, the disaster at Fukushima catalysed [German plans](#) for an energy transition. However, such a project makes more sense on a European scale, where smart grids and a plethora of technologies can be integrated into a continental energy system.

What would an energy transition require and what are its promises?

Scaling up this commitment at the European level will first require a continent-wide deployment of alternative energy technologies with concomitant upgrading of the transmission network and development of a smart grid. As a result, complementarities between intermittent renewables (like solar and wind) and baseload ones (like hydro and nuclear) could lead to a near decarbonisation of the energy sector by 2050 in line with the [EU 20-20-20](#) initiative. However, this bold first step will have to be backed up with large-scale financial investment, i.e., on the order of trillions of euros over the next three decades, by national governments and the EU. In effect, the huge knowledge spillovers of such a network-based undertaking mean that no private company can carry this load on its own.

In the next step, commercialisation by private companies of the alternative energy technologies plugged into the publicly developed continental smart grid would lead to new jobs in not only manufacturing and R&D but also in technical servicing, consulting, finance, and software as sophisticated decision support would be needed to balance an energy system relying on intermittent resources. The investments needed to develop a pan-European smart grid (that can facilitate the balancing of Mediterranean solar power with wind and hydro resources in the north) would, in the short term, generate many new jobs in construction. Of course, as in developing a European aerospace industry, political commitment will also be required to achieve an equitable distribution of this new industry across Europe. Otherwise, the risk is that new industries would cluster around the existing industrial heartland in central Europe, rather than around the "periphery" where a recovery is most needed. The final step would see the export of such expertise to emerging economies, which are growing rapidly and are likely to increase their per-capita energy consumption manifold. Thus, public investment in the European alternative energy sector promises (i) a more sustainable energy system, (ii) the creation of a viable export sector that is likely to see growing demand, (iii) better-paid jobs with more equitable economic benefits than financial services, for example, and (iv) energy security.

An opening is available to harness the forces of [globalisation](#) (rather than resisting them to re-create failed paradigms) for a European economic renewal, but it will require delicate and skilful policymaking along with a long-term financial commitment. Proponents of austerity may balk at increased government spending in a time of recession by raising arguments about profligacy. However, such critiques are unfounded if the proposed investment uses historically low interest rates to raise funds via Eurobonds and targets tangible outcomes that cannot possibly be delivered by the private sector alone. Furthermore, an export-led recovery package avoids inflating its way out of the recession via a new housing bubble (as posited in the U.K.) or simply bloating the public sector to cover up structural economic deficiencies (as in pre-recession Greece). At the moment, the panda has consumed large chunks of manufacturing industries that Europeans once relied upon for lifetime employment, but it has simultaneously developed a new appetite for energy. It is up to European policymakers to leverage this opportunity to create the right setting for an alternative-energy-led recovery. Europe was the birthplace of the industrial revolution: perhaps it can become the home of a new [energy-industrial revolution](#)?

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Note: This article gives the views of the authors, and not the position of the Euro Crisis in the Press blog, nor of the London School of Economics.