



Is a Green Recovery Possible?

Trevor Houser, assessing the proposals before Congress to create jobs and promote energy efficiency, calls on the United States to work with G-20 allies to achieve a green recovery across the globe.

Recorded February 5, 2009. © Peterson Institute for International Economics.

Steve Weisman: Welcome to Peterson Perspectives. This is Steve Weisman at the Peterson Institute for International Economics. Our guest is Trevor Houser, visiting fellow at the Peterson Institute and author of Policy Brief 09-3, “A Green Recovery? Assessing US Economic Stimulus and the Prospects for International Coordination.” Trevor Houser has been testifying before Congress on policy options in the economic stimulus program that would also help the environment.

Welcome to Peterson Perspectives, Trevor.

Trevor Houser: Thanks, Steve, a pleasure to be with you.

Steve Weisman: Why is it important for the stimulus bill to contain provisions that promote energy efficiency?

Trevor Houser: The primary consideration of any stimulus bill is near-term economic stimulus. As the Congress crafts and debates the stimulus package, there has been a desire—in addition to addressing near-term economic weakness—to lay a foundation for long-term economic growth and address other longer term policy priorities. Among those have been energy environmental goals. We’ve seen in both the House version and now in the Senate version a number of provisions that would weatherize buildings or create incentives for renewable energy or would invest in mass transit. What we do in our policy brief is assess the effectiveness of those proposals both in terms of their near-term stimulus value as well as their long-term energy and environmental benefits.

Steve Weisman: I presume that those two goals can be compatible, but there must be some that are more compatible than others.

Trevor Houser: That’s right. For stimulus, you’re concerned with the speed with which the investment takes place and you’re concerned with the multiplier: how much additional private sector activity results from the government investment. There’s a range of how quickly the green stimulus options under consideration can be spent and how much of an impact they would have down the road on US CO₂ emissions or on dependence on foreign sources of oil.

Steve Weisman: Let's start with those initiatives that do both the best.

Trevor Houser: Right, let me first say that when we look at the full range of options that are being considered or could be considered, the first thing that jumps out in our modeling work in assessing the environmental impact is that at best even \$100 billion of spending on energy and environmental provisions is going to have a modest impact on US CO₂ emissions or energy imports. So the goal in thinking about the energy and environmental benefit of these provisions is the extent to which they complement longer term energy and climate policy. A hundred billion dollars worth of green stimulus spending is not going to be nearly enough to meet our energy security and climate change goals.

Under that framework, we're looking for policies that do a couple of things that target what economists call market failures. In energy and environmental policy, there are some areas of efficiency improvement that don't respond to a price for CO₂, that don't respond to a market-based climate policy. An example of that would be weatherizing your home where it makes economic sense, but households don't do it because they would rather spend the capital elsewhere or because they're unaware of the savings potential. That's an area where stimulus money can have a real short-term benefit in terms of construction jobs to weatherize homes as well as a long-term energy and environmental benefit.

Steve Weisman: Do the Senate and House bills have weatherization elements?

Trevor Houser: They do. The House bill allocated, I believe, \$6.2 billion for the Department of Energy's weatherization assistance program.

Steve Weisman: Is that a supplement to an existing program?

Trevor Houser: It is. One of the concerns is that it is not so much a supplement as a tenfold increase in traditional levels of spending for that program.

Steve Weisman: That much?

Trevor Houser: Right, and so with all of these programs, there are real capacity-constraint concerns about whether or not the Department of Energy can turn \$6.2 billion around.

Steve Weisman: And whether they can turn it around quickly enough to generate the jobs that are the other purpose of the stimulus program.

Trevor Houser: Exactly.

Steve Weisman: What's your view of that?

Trevor Houser: I think that it will come down to administrative oversight. I think that the Department of Energy would have the ability. The good news on weatherization

or on retrofitting federal buildings, which is another priority area in the stimulus package, is that it takes advantage of a sector of the economy, the construction industry, that's underutilized right now. There are folks who have the skills and training and are ready to go. And since the weatherization assistance program has been around for a while, there's a template for how you do it. So the bottleneck will be whether the bureaucratic side can get the money through the door quickly enough to the private sector. I think that's possible if the administration focuses on making sure that happens.

Steve Weisman: What other programs would deliver in this area?

Trevor Houser: From an energy and environmental standpoint, the second area that you would want to focus on is infrastructure bottlenecks. If we create a price for carbon—either through a cap-and-trade system or carbon tax that incentivizes new low carbon technology like renewables—that technology depends on infrastructure that government will necessarily have a role in improving. So here I'm talking about things like transmission lines or mass transit or CO₂ pipelines, if you're doing carbon capture and sequestration.

There's a very high return on government investment from an energy and environmental standpoint. The drawback is that those projects can't get moving quite as quickly as things like weatherization because you have to consider where you're going to site new transmission lines. You have to get regulatory approval.

Steve Weisman: And most of those siting questions have to go through local governments as well.

Trevor Houser: Right, that's a question that's being dealt with in the bills of reconciling local and federal jurisdiction and transmission siting, and there are some loan guarantees for transmission projects that are included in both versions. There are certainly some programs in some areas that could take place immediately, but large-scale infrastructure investment is something that's going to have to roll out over a number of years.

Steve Weisman: It sounds to me like you're not worried that this program is too small. It may be too big for it to be spent effectively.

Trevor Houser: I believe it's \$8 billion in loan guarantees for transmission and other forms of renewable projects. The question isn't whether \$8 billion in loan guarantees is a good idea, and it's not even whether \$8 billion in loan guarantees makes sense in the current stimulus package. The question is about making sure that if that's not going to have a near-term effect in the next year or 18 months that you balance that with enough other items that do have a near-term effect, because the other consideration with all of these provisions—and what I see as the principal benefit of some well-designed energy and environmental provisions in a stimulus package—is that they help offset the cost of our stimulus bill down the road when we have to pay it back, right? It's what I call efficiency pay-go.

Our modeling work shows that if you invest \$1 billion in federal weatherization, that investment for up to a decade after you make it yields you close to \$400 million a year in energy savings. Now, \$150 million of that is direct to the federal government, which helps offset the cost of that program and pays back that program in under a decade. But the other \$250 million a year is savings to the economy as a whole through lower energy prices. That helps ensure that as we emerge from an economic recession, the cost of repaying our stimulus package is reduced.

Steve Weisman: What about other energy expenditures that are being considered?

Trevor Houser: You're definitely going to get the most bang for your buck through weatherization programs, through retrofitting buildings, both in terms of near-term stimulus and long-term energy savings. There are other tax credits for renewable energy—extension of the production tax credit for wind, for example, which has merits in its own right, if you're interested in supporting wind power. It's less clear in the current economic environment how successful that will be in providing near-term stimulus, because a number of wind power developers aren't profitable at the moment and thus don't have tax appetite for the credits that are in existing law, let alone that would be an extension.

This is an issue that folks in the House and the Senate are aware of and they're trying to look at alternatives, like grants and loan guarantees to help deal with the particular economic considerations that these firms are facing right now. But I think there's a question about how immediately that money, the tax credits for renewable energy, would have an economic impact.

Steve Weisman: Construction on roads, highways, and bridges, of course, might create jobs, but then they might also create more use of automobiles, which would exacerbate the energy problem. Or is that the wrong way of thinking about it?

Trevor Houser: No, that's right. If we're thinking about investments in "green infrastructure" as opposed to traditional infrastructure like bridges and highways—though there are a number of benefits to investments in traditional infrastructure to the economy down the road in terms of improved productivity, making it easier for people to ship goods and get to work—one of the drawbacks is that investment in road construction and improvement increases oil use and US energy demand and thus CO₂ emissions.

In our modeling, the increase is fairly modest compared to some of the other reductions you get from some of the green programs. As part of a balanced stimulus package, having road construction alongside mass transit, alongside some efficiency, you're still going to see some meaningful reductions and energy demand and CO₂.

Steve Weisman: As I understand, they're going to be talking about energy in April at the next meeting of the G-20 with other countries. Energy efficiency is going to require

more global cooperation. What do you see as the agenda for this administration going into the London meeting of the G-20?

Trevor Houser: The primary focus for the meeting in April in London will be responding to the immediate financial crisis. One of the goals put forward in the November meeting was coordinated stimulus. In the context of looking at G-20 member countries' stimulus packages, it makes sense to start to assess the energy and environmental components of that because many countries, not just the United States, have tried to make their stimulus packages green.

China has committed \$150 billion of the \$586 billion in its stimulus package for energy and environment related projects. The United Kingdom, Germany, Japan, and South Korea have as well. The reason why that's important is twofold. One, the degree to which we can coordinate the energy and environmental components of our stimulus package in terms of timing and design will help maximize their benefits; an energy demand reduction in China lowers energy prices globally, and so we yield a benefit from that. The second is that that same group of countries is going to meet again in Copenhagen in December to negotiate an international climate treaty. It's important to understand how the response to the crisis has changed our global carbon footprint and what that means for the types of targets and timetables that we negotiate in the climate conference in December.

Steve Weisman: And of course if the United States is to lead, it's best that it lead by example.

Trevor Houser: Exactly.

Steve Weisman: Trevor Houser, thank you very much for talking to us about this very interesting subject today, and let's be sure to have you back on Peterson Perspectives as the year unfolds. Thanks again.

Trevor Houser: Thanks, Steve.