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Economic effects of renewable energy expansion: A model-based analysis for Germany

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A Model-Based Analysis for Germany

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Economic effects of renewable energy expansion: A model-based analysis for Germany

Jürgen Blazejczak^{a,b}, Frauke G. Braun^b, Dietmar Edler^b, Wolf-Peter Schill^b

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Abstract

Increasing utilization of renewable energy sources (RES) is a priority worldwide. Germany has been a forerunner in the deployment of RES and has ambitious goals for the future. The support and use of renewables affects the economy: It creates business opportunities in sectors producing renewable energy facilities, but also comes along with costs for supporting the deployment of renewables.

This paper analyses and quantifies the net balance of economic effects associated with renewable energy deployment in Germany until 2030. To this end, we use a novel model, the 'Sectoral Energy-Economic Econometric Model' (SEEM). SEEM is an econometric multi-country model which, for Germany, contains a detailed representation of industries, including 14 renewable energy technology sectors.

Our results show that renewable energy expansion can be achieved without compromising growth or employment. The analysis reveals a positive net effect on economic growth in Germany. Net employment effects are positive. Their size depends strongly on labour market conditions and policies. Results at the industry level indicate the size and direction of the need for restructuring across the sectors of the Germany economy.

Keywords: Renewable Energy; Germany; Net Economic Effects

JEL Classification: Q43; Q52; C5

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1 Introduction

With increasing awareness for the risks of climate change, many countries have endorsed strategies for a transition to low carbon economies. A major decarbonisation strategy is to substitute fossil power generation with renewable energy sources (IPCC, 2011). This entails environmental and climate benefits like lower emissions of CO₂ and other air pollutants. Decarbonization may also have favourable economic impacts – for instance by creating opportunities in manufacturing and services. Realizing such economic potentials has become an additional rationale for climate change policies such as the ‘Green Growth Strategy’, which was initiated by the OECD in 2009 to boost economic recovery within a green framework for long-term sustainable growth (OECD, 2009).

However, it is clear that climate protection does not come without costs (Kuik et al. 2009). In particular, utilising renewable energy sources (RES) incurs additional upfront investments and may substitute income and jobs in the conventional energy industry. The balance of economic benefits and costs, that is, the net economic impact, of renewable energy deployment still remains disputed. Analyses on these net economic impacts are therefore needed to fill this research gap and to improve upon the design and acceptance of renewable energy policies.

In this article, we examine and quantify the net aggregate economic effects as well as sectoral implications of German renewable energy support using scenario calculations with a novel model, the ‘Sectoral Energy-Economic Econometric Model’ (SEEEEM) for Germany. It provides insights on, first, the macroeconomic impacts and, second, structural effects across the sectors of the economy. We focus on the case of Germany which is a forerunner in the support of renewables. As many countries have followed the German example, our analysis can generate meaningful insights which apply to other countries as well.

The overall economic impact of increasing the contribution of renewables to energy supply is the outcome of multiple interacting and counterbalancing mechanisms. The deployment of renewables promotes innovation, facilitates the development of a green technology sector and creates new markets. Activities in other sectors of the economy can also benefit via inter-industry relations such as the supply of intermediate inputs or manufacturing equipment. Further, drawing on domestic renewable energy sources decreases a country’s imports of fossil fuels. On the other hand, investment and employment in the conventional energy industry is displaced. Due to additional costs, renewables still hinge on policy support, which typically translates into higher energy prices. Higher energy prices may work as a drain to energy users’ budgets and hurt the competitiveness of energy-intensive industries which leads to a contraction of economic activity in terms of lower consumption and profit or investment (e.g., Bassi et al., 2009).

Importantly, these developments will trigger second-order effects which affect employment and growth of the overall economy, but also the relative importance of various sectors, i.e. the sectoral structure of the economy. Due to different income elasticities of demand, for example, the budget effect will influence production differently by sector. Likewise, increasing energy prices will primarily hurt energy intensive industries. The induced restructuring processes may be costly in terms of reallocations of resources or retraining of workers. It should be stressed that structural change is an ongoing process in an economy and the induced structural change in the context of decarbonisation strategies comes along with additional risks, but also with opportunities. Hence, in order to fully assess the impact of decarbonisation strategies on the economy, the analysis needs to account for the interrelated and counterbalancing effects in an economic system and needs to go beyond the aggregate level and provide insights on sectoral effects in the economy.

The analysis applies the model SEEEM to evaluate and compare different scenarios for the expansion of renewables in Germany until 2030. SEEEM is an econometric multi-country model which, for the case of Germany, contains a detailed representation of economic sectors, including such for renewable energy technologies. It fully accounts for feedback relations between various macroeconomic and sectoral variables as well as across time and countries to draw a balance of the countervailing dynamics – that is to obtain net effects.

The remainder of this article is structured as follows: The subsequent section describes the development of renewable energy and its support framework in Germany. It moreover provides an overview of the relevant literature on economic impacts of renewable energy deployment. Section 3 introduces the analytical framework by describing the structure and characteristics of the model SEEEM and the scenarios developed. Results of the scenario runs are presented in Section 4. The final section concludes.

2 Renewable energy expansion and the economy

In recent years, the use of RES like wind, solar, biomass and hydro has increased substantially worldwide. For example, global installed wind capacity increased from 6.1 GW in 1996 to 198 GW in 2010, whereas global solar photovoltaics capacity grew from 0.7 GW to 40 GW. Total investment into renewable energy technologies rose from US-\$22 billion in 2004 to US-\$211 billion by 2010 (REN21, 2011). In coming decades, further large-scale deployment of RES technologies is projected in most industrialized countries (IEA, 2010). For example, the European Union aims to increase the share of renewable energy in final energy consumption to 20% by 2020, which implies even larger shares in power generation (EU, 2009).

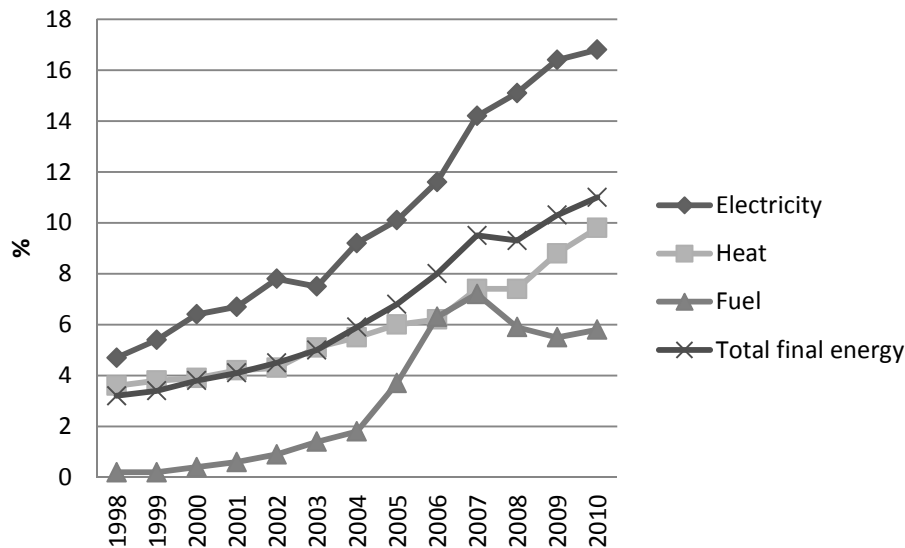


Figure 1: Renewable energy shares in final energy consumption in Germany. Sources: BMU (2010a and 2011).

As for Germany, Figure 1 shows the growing shares of renewable energy in final energy consumption between 1998 and 2010. The share in total final energy consumption increased from around 3% in 1998 to 11% in 2010. The development in the power sector is most remarkable. The share of renewable energy in gross electricity consumption rose from 4.7% in 1998 to 16.8% in 2010. In 1998, hydro power accounted for the largest part of renewable generation (70%). Wind power (17%) and biomass (6%) played minor roles, while photovoltaics were virtually absent (BMU, 2010a). This changed dramatically by 2010, with wind power providing 36%, biomass 33% and hydro power only 19% of renewable power generation. Photovoltaics, which had the largest growth rates, accounted for around 12% in 2010 (BMU, 2011). In the future, further large-scale deployment of renewable generation capacity is planned in Germany, such that the power sector could be mainly based on RES in the long run. According to the government's Energy Concept of 2010, renewables should supply 35% of gross electricity consumption by 2020, 50% by 2030 and 80% by 2050 (BMW and BMU, 2010).

The renewable energy boom in Germany was triggered by supportive policies. Renewable energy utilization for heating is encouraged by ordinances, investment grants, low-interest loans and other market incentive programs (Schimschar et al. 2011). The use of biofuels is promoted by quotas (Sorda et al., 2010). As for electric power, a feed-in tariff for RES technologies was first introduced by the *Stromeinspeisungsgesetz*, which entered into force in 1991 (Bundesgesetzblatt, 1990). It granted priority feed-in for renewable energy sources and a guaranteed minimum price. In 2000, it was replaced by the *Erneuerbare-Energien-Gesetz* (EEG, Renewable Energy Sources Act), which made investments into solar power and biogas more attractive (Bundesgesetzblatt, 2000). The differential costs between the feed-in tariff and the market price are apportioned among power consumers.

Importantly, the guaranteed tariffs for new installations are designed to decrease over time. This degression aims to phase out support over time and to gradually integrate RES generators into the liberalized market. Subsequently, the EEG was regularly amended in order to adjust tariffs to technology and market developments (Bundesgesetzblatt, 2004, 2008). Tariffs generally depend on generation technology and on plant size. In addition, several bonuses are granted, for example for small biomass plants or for wind repowering. The EEG has proved to be very effective regarding RES deployment as is illustrated in Figure 1 (Butler and Neuhoff, 2008, Büsgen and Dürschmidt, 2009; BMU, 2010a).¹

The growing utilization of renewable energy sources in Germany comes along with increasing economic activity in the renewable energy sectors. Table 1 indicates some key figures. Investments into renewable energy facilities increased from €10.3 billion in 2005 to €26.6 billion by 2010. Over the same time, total demand for facilities and components (including exports), operation and maintenance as well as biogenic fuels grew from €13.7 to €35.5 billion.

Table 1: Economic key figures for renewable energy in Germany.

	2005	2006	2007	2008	2009	2010 ¹
In billion euros (current prices)						
Investments into RES facilities	10.3	11.1	11.6	16.8	20.2	26.6
Total domestic demand stimulus	13.7	17.6	24.8	30.1	31.7	35.5
Sales of complete facilities, including exports of complete facilities and components	8.6	11.4	15.2	19.7	21.4	25.3
Operation and maintenance of facilities	2.5	2.6	3.9	4.3	4.7	5.2
Demand for biomass and biofuel	2.6	3.6	5.6	6.1	5.6	4.9

¹ Preliminary figures.

Sources: O'Sullivan et al. (2011) and Lehr et al. (2011).

Among the existing studies on the economic effects associated with the renewable energy expansion many focus on the assessment of the additional growth and, particularly, employment created. The

¹ Traber and Kemfert (2009) analyse the impact of the German EEG on electricity prices, carbon emissions, and generating firms' profits. Kemfert and Diekmann (2009) argue that emissions trading should not be considered a substitute for a renewable energy feed-in tariff; both instruments are required in order to facilitate the transition towards a sustainable energy system.

gross employment is always a positive figure. Depending on the type and coverage of analysis it can be further distinguished to include, first, persons *directly* employed in manufacturing, operating and maintaining renewable energy installations and supplying biofuels and biomass. Second, gross employment also includes persons *indirectly* employed along the value chains of the sectors directly providing final demand. For example, manufacturing of solar panels requires inputs from other sectors such as electronics (BMU, 2010b, Wei et al., 2010).

Studies on the gross employment effects have been conducted for several countries and renewable energy technologies, including Germany (Lehr et al. 2008; BMU, 2010b), the UK (Esteban et al., 2011), the EU (Blanco and Rodrigues, 2009, Ragwitz et al. 2009) and the U.S. (Kammen et al., 2004; Wei et al., 2010). Methodologically these studies use surveys (e.g., Blanco and Rodrigues, 2009), employment factors like the number of persons required to manufacture, install and operate a MW of a facility (Wei et al., 2010; Esteban et al. 2011), input-output analysis as well as combinations of these approaches (Lehr et al. 2008, BMU, 2010b). The latest results for Germany indicate that direct and indirect gross employment for renewables amounts to 367,000 persons in 2010 (O’Sullivan et al., 2011). This result is based on input-output analysis and encompasses the employment effects of investment, exports, operation and maintenance as well as the production of biomass and biofuel.

Few studies go beyond the determination of gross effects following a *net* approach which includes amplifying as well as countervailing mechanisms and drivers. In particular, such studies – which require a sophisticated model of the economic interdependencies – also account for growth, income and jobs eliminated by renewable expansion (Fronzel et al., 2010). Hillebrand et al. (2006) calculate a net balance of the expansive impacts due to the investment in RES-technologies and the contractive impacts in forms of higher energy costs in Germany between 2003 and 2010. In the first years the expansive investment effect dominates, while in later years the additional costs become stronger and the net employment effect turns negative. Lehr et al. (2011) provide more recent net estimates for Germany. They use scenario calculations based on a combination of an econometric input-output model for Germany, an ecological model and a model for international linkages. According to this study, net employment effects in 2030 are positive throughout all scenario versions. The largest job gain occurs in a scenario with high fossil fuel prices and strong exports of renewable energy technologies and components. Earlier calculations in Lehr et al. (2008) also corroborate positive growth, consumption and employment effects.

3 Modelling approach

The net economic balance of the various effects associated with a renewable expansion strategy is obtained by applying model-based scenario analyses. We compare different runs of the SEEM

model: one with a scenario that describes a renewable energy expansion in Germany and another run with a counterfactual scenario without any renewable deployment (therefore coined NULL). Each scenario sets out from a consistent set of economic impulses, for instance investments in renewable energy technologies and additional costs, which are fed into SEEEM. The model calculates the responses of macroeconomic and sectoral variables to these exogenous stimuli.

Among the basic approaches to examine linkages between the economy and energy policies – top-down and bottom-up models – SEEEM can be considered a top-down model. Top-down models focus on feedback and price effects within an economy and, importantly, economic interactions occurring via international markets such as trade in goods and services. Bottom-up energy-economic models on the other hand feature a detailed representation of energy demand and supply, including different energy sources, carriers and conversion technologies, but are less sophisticated in modelling economic relations (compare Messner 1997, Seebregts et al. 2000). In the following, we first describe the model structure and features of SEEEM and subsequently introduce the different scenarios considered.

3.1 The model SEEEM

The general framework

SEEEM has been explicitly designed for the purpose of analysing the macroeconomic and sectoral effects of environmental policies. It is based on the well-established macroeconometric multi-country model NiGEM (National Institute Global Econometric Model)². Most OECD countries are represented with a full country model while smaller countries or blocks of countries such as OPEC are modelled in a more parsimonious manner. The country model for Germany in NiGEM has been substantially modified and expanded to suit the needs of our research, in particular integrating a detailed sectoral module of the German economy following input-output approaches.

The core of SEEEM, NiGEM, is an economic model for purposes of policy simulations and forecasting. In contrast to other models, many settings such as monetary policy regimes or expectation formation can be flexibly changed.³ NiGEM is firmly rooted in economic theory and state-of-the-art econometric techniques. The modelling approach can be considered as Neo-Keynesian with forward-

² <http://nimodel.niesr.ac.uk/>, accessed 25 August 2011.

³ Lehr et al. (2011) also apply an econometric model. Yet our approach relies on a fully integrated model of the world economy where interest or exchange rates are set endogenously. This is an important feature given the influence of trade, competitiveness and international price effects for the German economy and the strong dynamics in RES-technologies, which Lehr et al. (2008) also point at.

looking agents and nominal rigidities, which slow the adjustment of the economy to external events. Economic relations are determined by identities and econometrically estimated behavioural equations. Dynamic error-corrections models are applied to specify relevant behavioural equations; those model variables accordingly adjust only gradually to equilibrium after a shock.⁴

The macro model is a complete representation of the economy in the sense that it covers production, government activities, income generation and consumption, prices, wages, exchange rates, and international financial and trade flows. For our research we modified and augmented the German model in NiGEM at the macro level and expanded it to include a sectoral module. It now accounts for second-round effects at the macro-level and across countries, horizontal linkages between sectors and for feedbacks between the macro and sectoral level for Germany.

The sectoral model for Germany

Important economic drivers related to renewable energy expansion are the investment effect and the operation and maintenance (O&M) effect. RES facilities investments and O&M expenditures increase aggregate final demand, which, depending on the technology considered, may benefit different production and employment of particular sectors. In order to assess such impacts at both aggregate and sectoral levels, but also to analyse the sectoral dimension of macro-level effects for instance triggered by additional costs to consumers, we introduce a sectoral module for Germany and link it to the macro model through a transfer model (Figure 2). This determines the final demand components in such a way that they are consistent with the accounting concepts of input-output tables.

The sectoral model computes key variables such as gross output, gross value added or employment. The contribution of each sector to final demand and imported intermediates is a required input for this. We use annual data on the sectoral structure of the past to obtain the final demand components such as private consumption, gross investment and exports at the sectoral level (DESTATIS, 2006a,b, 2007a,b,c, 2008, 2010a,b). We assume the respective contribution of a sector to the respective final demand variable to be constant from the last year onwards for which data is available.

We estimate sectoral equations for imported intermediates, depending on past imported intermediates, total imports and a trend. Figure 3 shows the development of imported intermediates

⁴ For model details refer to NiESR, <http://nimodel.niesr.ac.uk/>, accessed 25 August 2011.

relative to gross production.⁵ It illustrates that international linkages of the German economy intensify over time. International sourcing of intermediates is particularly strong in areas like industry (around 35% in 2030) while services remain more oriented towards the domestic side (around 10% in 2030).

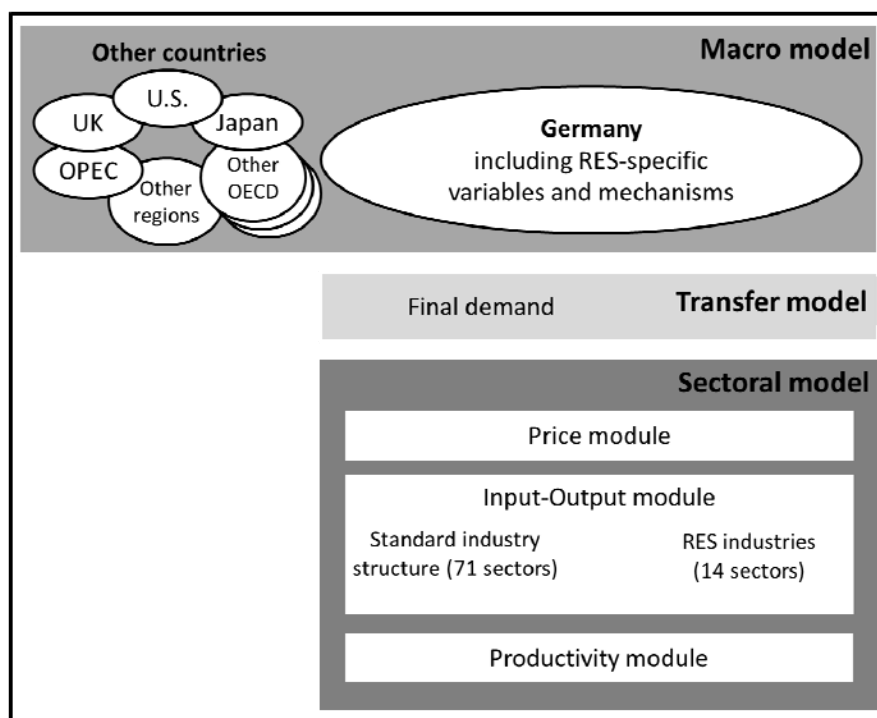


Figure 2: Model structure of SEEM.

The model includes an input-output table for each year of the analysis, derived from official statistics (DESTATIS, 2006a,b, 2007a,b,c, 2008, 2010a,b). The latest available input-output table is held constant for the subsequent years.⁶ In addition to the 71 sectors represented in official statistics we define and describe empirically 14 additional RES sectors. We distinguish seven renewable sources of energy (or technologies) in order to achieve a better degree of homogeneity of the underlying production processes:

1. wind,
2. photovoltaics,
3. solar thermal heat,

⁵ We present here for illustration purposes a path based on the EXP scenario, which is introduced in 3.2. The outcomes of other scenarios are very similar.

⁶ The model is designed in a way that input-output tables can be modified in order to reflect expected structural changes in the inter-industry linkages. This feature is not exploited in this article. It should be noted that the model analysis draws on differences between scenarios, such that parameter assumptions which are identical in both scenarios cancel out.

4. hydro,
5. biomass,
6. biogas,
7. geothermal.

For each of these sources we define two new sectors: ‘Production of RES facilities’ and ‘Operation and maintenance of systems for the use of RES’. Each of the 14 new sectors is defined as a new column in the input-output table, describing the input or cost structure, and a new row, describing the output or sales structure.⁷ The new sectors are fully integrated into the input-output framework, e.g., they suffice the accounting scheme that the sum of inputs equals the sum of outputs for each sector. After integrating RES we end up with 85 sectors representing the structure of the German economy.

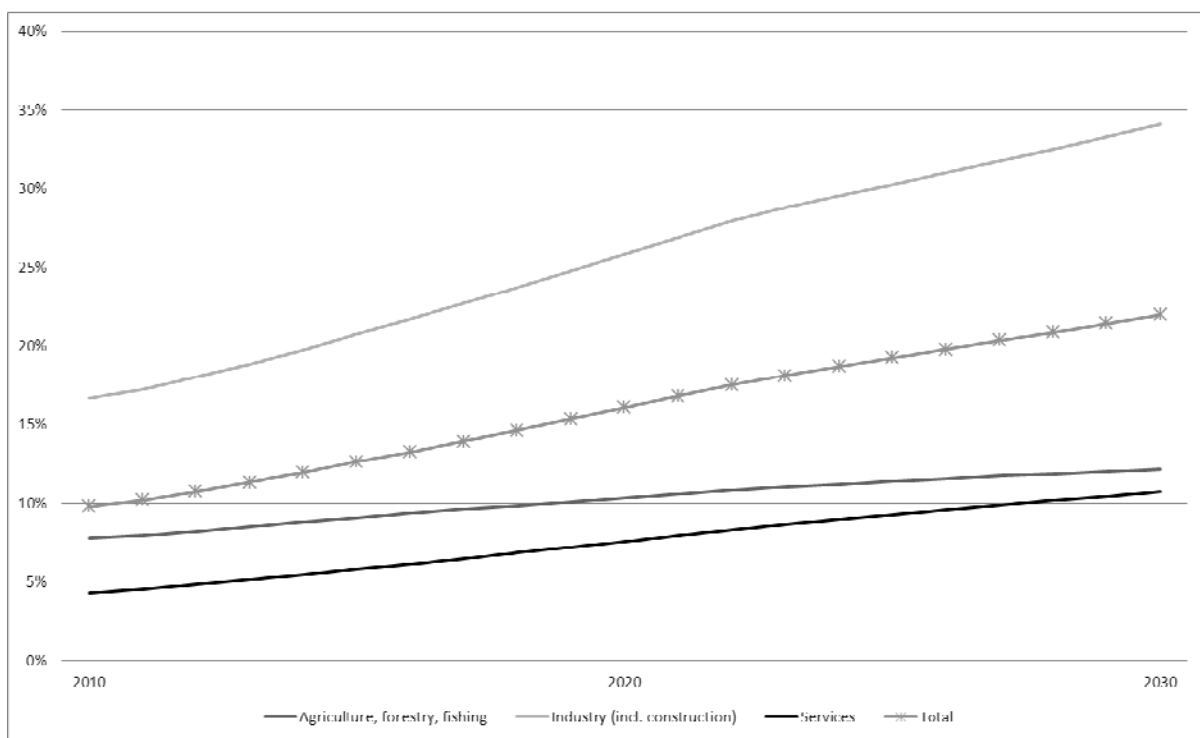


Figure 3: Development of imported intermediate goods and services as share of gross production by main sectors between 2010 and 2030 (here illustrated for EXP scenario).

To determine employment we proceed as follows: Gross output is calculated, which has to be produced by each sector to satisfy final demand (derived as explained above), using the Leontieff inverse. The share of gross value added in gross production is determined based on past relations. Gross value added is deflated by prices derived from econometric equations involving the past

⁷ For details of the empirical foundation and the methods involved see Lehr et al. (2011). For a previous study see Lehr et al. (2008).

relation of sectoral to aggregate prices (Price module). Sectoral price data have been obtained from EUKLEMS (2008). Productivity links real gross value added to hours worked in each sector. Productivity trends are estimated with past relations of sectoral to aggregate productivity as explanatory variables (Productivity module). A corresponding specification is used to estimate average hours per worker. Hours worked to average hours per worker yield employment.

A different approach is used for the newly defined RES sectors. Deriving empirical results from Lehr et al. (2011) we calculate employment in the RES sectors by using sectoral labour coefficients, i.e. labour input per unit of gross output. Over time labour coefficients represent learning curve effects in the expanding RES sectors and are at the same time also influenced by labour productivity trends in the rest of the economy.

RES-specific macro model mechanisms

In addition to sectoral effects discussed above, the macroeconomic effects related to RES expansion are considered in the macro model. The investment variable in the German macro model is split into a variable representing renewable investment (an aggregate of the sectoral investment variables for seven renewable energy technologies), a variable for all other investments, and a variable that considers displaced investments in non-renewable energy technologies. These variables are fed with exogenous scenario information during simulations.

Additional costs of RES constrain the budget available for the purchase of non-energy goods or services. This repercussion is termed as ‘budget effect’ in the literature (e.g., Lehr et al. 2008), though not all analyses of the economic effects of renewable energy promotion account for this (e.g., Wei et al., 2010). The budget effect is considered in SEEEM in the way that consumers fully bear the burden of additional costs. Consumers cover these costs either directly via feed-in tariff attributions or indirectly via increasing prices of goods and services.

Trade is another important channel through which the expansion of renewables affects a country’s economy. First, a wider penetration of renewables reduces the demand for conventional energy, which, in the case of Germany, is imported to a large degree. In 2010, around 71% of Germany’s primary energy demand was met by imports (BMWi 2011). This number is mainly driven by high import shares of oil, natural gas and hard coal. Second, lead-market research indicates that decarbonizing the economy promotes innovation and facilitates the development of a green technology sector (e.g., Beise and Rennings 2005). It thus creates competitive advantages on international markets (innovation and trade effect). Although such trade effects are an important aspect in the context of renewable energy expansion, several studies fail to include these (e.g., Hillebrand et al., 2006, Wei et al., 2010). Additional exports of RES facilities and components are

covered by specific variables in SEEM's export equation. The German import equation considers imported RES facilities and substituted imports of fossil fuels.

3.2 Scenarios

We analyse the economic effects of renewable energy expansion in Germany between 2000 and 2030. A renewable energy expansion scenario (EXP) is compared to a counterfactual NULL scenario, in which no renewable energy deployment takes place throughout the entire period of investigation. Taking differences between the model outcomes for EXP and NULL allows determining the economic net effects of renewable energy deployment in Germany. Renewable expansion in other countries is not explicitly modelled, but implicitly represented in the form of German exports of RES facilities and components.

Up to 2008, the expansion scenario represents historic data. From 2009 onwards, it follows the *Leitstudie 2009* ('Lead Study') (BMU, 2009). This constitutes the ministry of the environment's official guideline scenario for the development of renewable energy and is often used in energy-economic studies. According to this scenario, renewable energy will cover 59% of gross electricity consumption, 26% of heat consumption and 16% of fuel consumption by 2030. This scenario includes both diminished imports of fossil fuels and additional costs associated with RES expansion. Aside from domestic renewable expansion, exports of RES facilities and components are also considered.

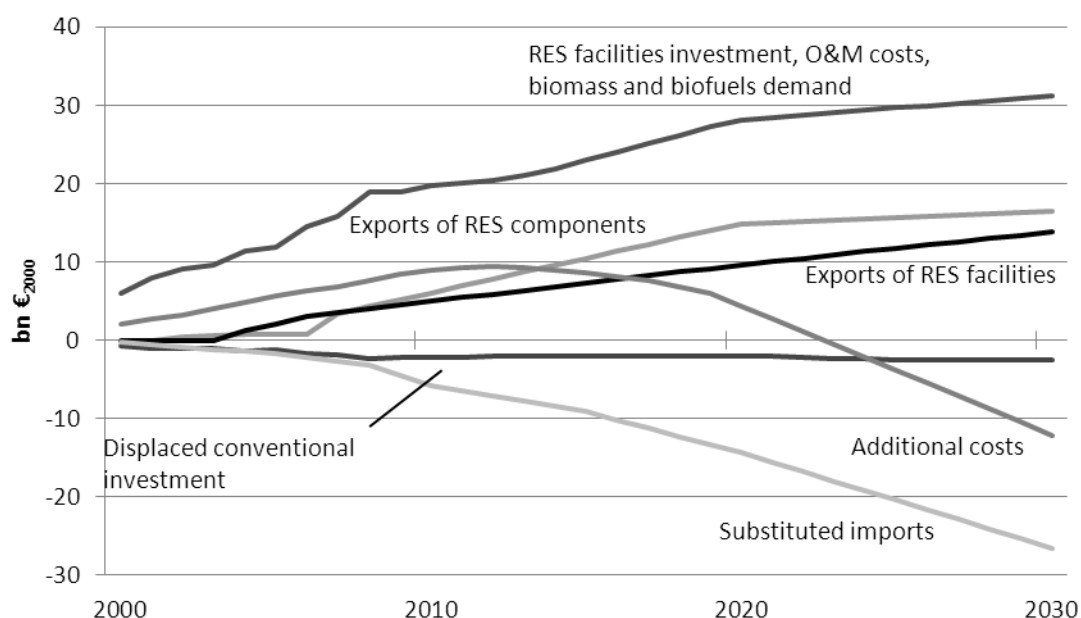


Figure 4: Economic stimuli of the expansion scenario (EXP), bn. euros (constant prices of 2000). Sources: Calculations of DIW Berlin based on BMU (2009).

Figure 4 depicts the paths of these economic impulses for the expansion scenario from 2000 to 2030. In contrast, all stimuli are zero in the NULL scenario. The impulses include investments, O&M costs,

demand for biomass and biofuels, and exports of RES facilities and components. RES exports are estimated according to BMU (2010b). We only include investments, O&M costs and exports from domestic production. Further impulses consist of displaced investments in conventional energy technologies, substituted imports of fossil fuels and additional costs. According to BMU (2009), additional costs will decrease after 2013 due to learning curve effects and price increases of conventional fuels; after 2023, these factors cause the additional costs to become negative.⁸ Thus, renewable energy expansion is – in the long run – assumed to incur even lower costs than conventional energy supply.

To assess the robustness of our model outcomes, we carry out two sensitivity analyses with respect to cost and price effects and alternative labour market conditions. In the basic EXP run, we assume that the additional costs related to renewable energy expansion do not have a major impact on unit costs of German producers. This assumption appears justified, because industries that face international competition are largely exempted from financial burdens from the support for renewables. For example, energy-intensive industries bear only a small part of feed-in apportionments. Notwithstanding, renewable energy expansion may still trigger a price-wage spiral via increasing energy prices, which may lead to increasing unit costs and harm the price competitiveness of the German economy. We thus carry out a sensitivity analysis COST, in which additional RES costs lead to increasing unit costs.

Secondly, we test the model's sensitivity with respect to labour market flexibility. The model is adjusted to allow for a lower rate of natural unemployment, such that additional economic growth goes along with a stronger increase of employment in Germany. Accordingly, the FLEX sensitivity run simulates the effects of an additional activation of unemployed persons, supported for example by retraining measures. Importantly, economic stimuli in both sensitivity analyses are the same as in the EXP scenario (Figure 4).

⁸ The *Leitstudie 2009*, which we draw upon in this research project, underestimates the strong deployment of photovoltaics that has taken place in the years 2009 and 2010. Compared to the assumptions of the study, both PV investments and additional costs of renewable energy generation have increased. A new version, *Leitstudie, 2010*, has only been published recently by BMU (2010c), which partly considers these developments. According to the new study, both positive and negative economic stimuli tend to be higher, particularly around 2010, than modelled here. We, however, do not expect results and conclusions to change materially.

4 Results

4.1 The renewable energy expansion scenario (EXP)

Overall, the model results reveal that the deployment of renewables leads to positive net economic effects in Germany (Table 2). German GDP (in constant prices) is 2.9% higher by 2030 in the expansion scenario compared to the NULL scenario. Correspondingly, the average annual GDP growth rate is by 0.1% higher in EXP during the period 2000 to 2030. The GDP difference between the two scenarios is mainly related to increased investment activities and higher private consumption.

Table 2: Net economic effects of renewable energy expansion in Germany (change in relevant indicators between EXP and NULL in %).

	2010	2020	2030
GDP	1.7	2.6	2.9
Private consumption	1.0	2.3	3.5
Private investments	9.1	8.9	6.7
Exports	0.9	1.2	0.9
Imports	1.0	1.0	1.0
Productivity	1.7	2.6	2.9
Employment	0.1	0.0	0.0

GDP and final demand components in euros (constant prices of 2000). Productivity is calculated as GDP per person employed. Private investments without construction investments.

The expansion of renewables requires, for example, investment in wind power plants or solar photovoltaic modules, which expand final demand and production. However, simultaneous investments in conventional infrastructure such as coal-fired power plants or refineries decrease relative to NULL, thus exerting a contractive effect, which, however, is smaller than the expansive RES investment impulse. Subsequently, further indirect dynamic effects are triggered on the macro-level as well as on the sectoral level (see Section 4.3). In sum, real private investments are about 6.7% higher in 2030 in the EXP scenario. This difference is slightly larger than the investments directly associated with the expansion strategy, or, technically speaking, higher than the exogenous investment impulse fed into the model. This result is related to the accelerator principle: stronger GDP growth leads to the need for capacity expansion and, thus, additional investment demand.

The second driver for higher growth in the EXP scenario is an increase in private consumption, which is about 3.5% higher than in the NULL scenario. Notably, consumption increases despite the strain put on consumers' incomes by the additional costs of renewable support. The contractive influence

on households' budgets is smaller than the expansionary effect of additional income generated by higher production due to investments in renewables.

Trade is an important channel through which the expansion of renewables affects the performance of an economy. First, the substitution of imported fossil fuels in the EXP scenario translates into lower German imports. As shown in Figure 4, imports of fossil fuels are reduced by nearly €27 billion in 2030. The expansion of renewables, second, creates opportunities for exporting renewable energy facilities and components. In the EXP scenario, these exports amount to about €30 billion in the year 2030. Last, changes in international price relations tend to weaken German competitiveness. In the EXP scenario, this phenomenon remains, however, modest in size: only about 16% of the initial RES export impulse is being offset by a price-induced decline of other exports in 2030. In effect, total exports are about 0.9% higher in 2030 in EXP compared to NULL. Overall imports are about 1% higher in EXP by 2030 – despite diminished imports of fossil fuels. This is because the more dynamic domestic performance of the German economy increases import demand, which more than offsets the decline in fossil fuel imports. In sum, the trade balance is hardly affected.

According to our model results, the net employment effect in the EXP scenario is positive, but small in magnitude. In 2010, employment is by about 22 000 persons higher compared to NULL. These initial job gains, however, decline over time, but still remain positive. Stronger economic activity and output growth related to renewable energy expansion hence do not translate into major employment effects. Instead, we observe a rise in labour productivity which goes along with the increase in GDP. Accelerated economic growth without a significant rise in employment – as suggested by our model outcomes – may occur in the case of previous labour hoarding. In such a situation, an increase in production reduces the underutilization of employed labour, resulting in an increase in productivity.⁹ Even if this 'buffer' of hoarded labour is fully exploited, firms find many ways to increase production without hiring additional workers, i.e. to increase productivity, particularly in situations of a mismatch between qualifications supplied and demanded.

4.2 Sensitivity analyses

4.2.1 The COST case

The scenario EXP assumes that the expansion of renewables does not affect unit costs in Germany. This appears plausible as firms active in economic sectors with strong international competitive

⁹ Such a phenomenon could, for instance, be observed during the recovery from the 2008 economic crisis in Germany.

pressures are exempt from the burdens associated with the renewable support policies.¹⁰ However, a price-wage spiral may nonetheless be triggered via the pass-through of higher energy costs of sectors not exposed to international competition. This may indirectly increase the costs of export-oriented industries, such that the international competitiveness of German goods and services may deteriorate. The COST sensitivity analysis depicts this case.

Table 3: Net economic effects of renewable energy expansion in Germany in the COST run (change in relevant indicators between COST and NULL in %).

	2010	2020	2030
GDP	1.0	1.1	1.0
Private consumption	0.7	1.6	3.1
Private investments	9.2	8.7	6.8
Exports	-0.2	-0.2	-0.4
Imports	0.9	1.3	1.7
Productivity	1.0	1.1	1.0
Employment	0.1	0.0	0.0

GDP and final demand components in euros (constant prices of 2000). Productivity is calculated as GDP per person employed. Private investments without construction investments.

As displayed in Table 3, we still find a positive economic growth effect associated with the expansion of renewables. In comparison with the EXP case, however, GDP increases less. It is by 1.0% higher than in the NULL scenario by 2030. The more moderate GDP expansion is mainly related to weaker exports, which are by 0.4% lower than in NULL, although exports of renewable energy facilities and components remain the same as assumed in EXP. Imports, on the other hand, are about 1.7% higher in 2030 compared to NULL. This German trade performance is explained by an unfavourable change in relative prices which tends to hurt the German export position and favours imports. Private consumption follows the growth in GDP and increases nearly as strong as in EXP: It is by about 3.1% higher in 2030 than absent any deployment of renewables. Regarding employment, we obtain similar results as in the EXP scenario (Figure 5): small, but, positive employment creation. In COST, as in EXP, changes in GDP tend to go hand in hand with productivity changes, rather than creating employment.

¹⁰ In their analysis on employment effects of energy efficiency policies Scott et al. (2008) also assume prices and costs not to be affected as political measures are too small to induce significant effects.

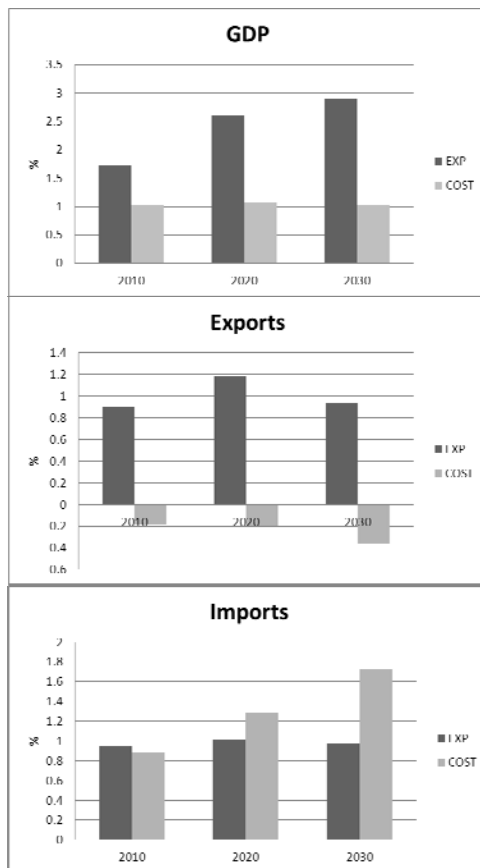


Figure 5: GDP, exports and imports for the COMP case. Percentage deviation between the respective case and NULL.

4.2.2 The FLEX case

Structural characteristics of the labour market, such as the natural rate of unemployment or the pool of unemployed labour, are drivers of model outcomes, particularly so for estimates of employment effects (compare GHK Consulting 2009). In both EXP and COST, labour productivity rises in line with GDP, such that net employment effects are limited. The FLEX case is based on identical impulses as the EXP scenario, but we modify the model assumptions concerning the German labour market. The model now allows for a more flexible labour market such that employment is more responsive to additional growth of output.

Table 4: Net economic effects of renewable energy expansion in Germany in the FLEX scenario (change in relevant indicators between Flex and NULL in %).

	2010	2020	2030
GDP	1.7	2.6	2.9
Private consumption	1.0	2.3	3.6
Private investments	9.1	8.9	6.9
Exports	0.9	1.2	0.9
Imports	1.0	1.0	1.0
Productivity	1.5	2.2	2.2
Employment	0.3	0.4	0.7

GDP and final demand components in euros (constant prices of 2000). Productivity is calculated as GDP per person employed. Private investments without construction investments.

Table 4 shows that GDP is by 2.9% higher than in NULL in 2030. The increase of labour productivity is now smaller – it is only about 2.2% higher compared to NULL. Correspondingly, the positive stimuli from the expansion of renewables now translate into job creation: employment is by about 270 000 persons higher in 2030 than in NULL. The unemployment rate of 2030 is about 11% lower than it would be without RES expansion. Labour income – in contrast to previous model results where it was largely unaffected – has now increased: it is by about 0.9% higher in 2030 compared to NULL. Other economic indicators such as private consumption or investment stay in similar dimensions as observed in the EXP scenario. Figure 6 compares the development of GDP, productivity and employment of the sensitivity analysis with flexible labour market conditions to those of the EXP scenario. These model outcomes underpin the conclusion that complementary labour market activation policies like retraining schemes can contribute to creating green jobs.

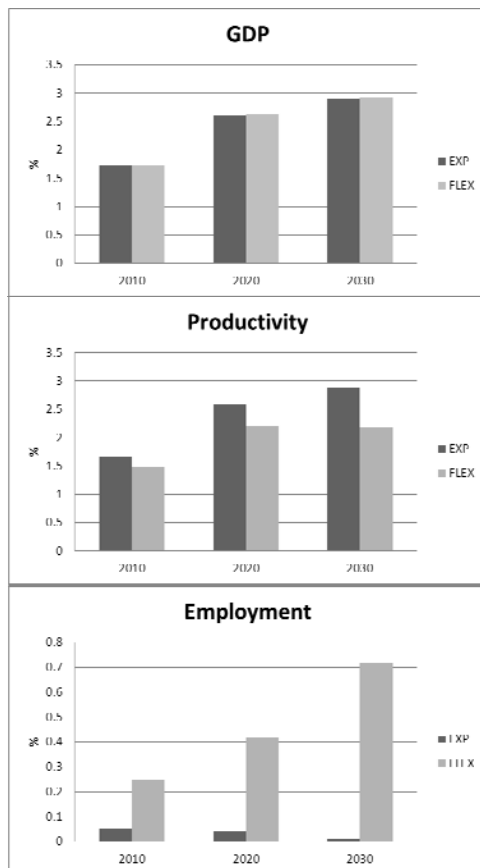


Figure 6: GDP, productivity and employment for the FLEX case. Percentage deviation between the respective case and NULL.

4.3 Sectoral results

Regarding the sectoral implications of renewable energy expansion, we find that changes in the structure of final demand have an impact on sectoral employment – even without considering future changes in input-output interlinkages. Figure 7 shows the sectoral distribution of employment effects across different sectors for EXP and FLEX. The total employment effect adds up to 100% in each year. In both cases, the manufacturing industry is the main winner, as it benefits more than other sectors from RES facility manufacturing. There are also large positive employment effects in the business-related service industry. In contrast, employment in public and private services decreases. Over time, the differences decrease due to second-round effects. Note that the relative effects are somewhat smaller in the FLEX case. That is, employment effects are more evenly distributed across industries, although the absolute employment effects are much larger in FLEX compared to EXP.

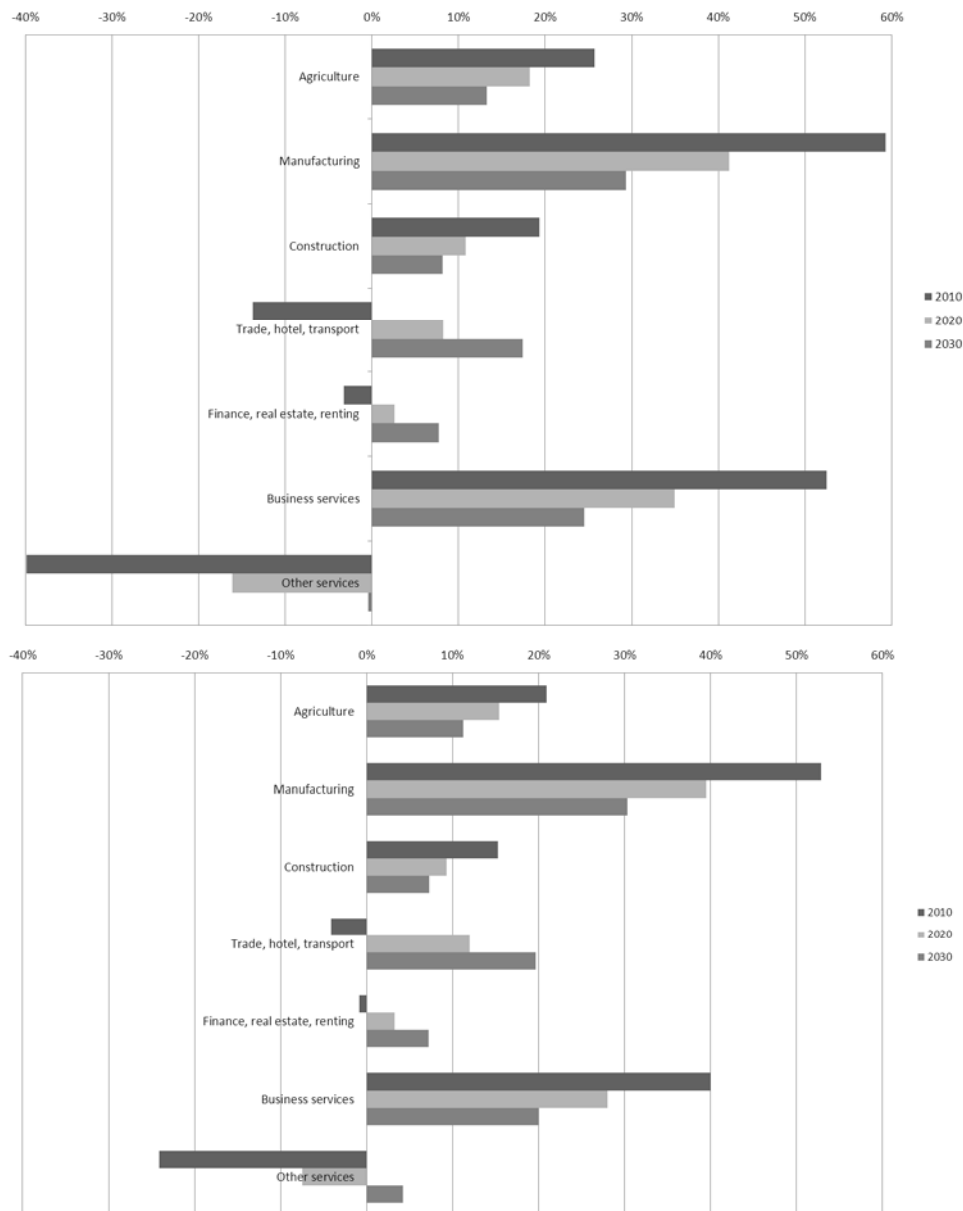


Figure 7: Sectoral distribution of employment effects for EXP and FLEX.

5 Conclusions

In this article we examine both economy-wide and sectoral implications of renewable energy expansion in Germany. In contrast to other studies, we do not focus on gross effects, but evaluate net economic outcomes by applying an econometric model which takes account of various interrelated economic mechanisms. Our main finding is that the expansion of renewable energy in Germany has a positive net effect on economic growth. A major driver for this outcome, which is robust for different model runs, is increased investment activity.

We also find that net employment effects are positive but small if labour markets are rigid and additional workers cannot be easily mobilised from the pool of unemployed. In this case, additional

production is made possible by an increase in productivity. In contrast, more flexible labour market conditions lead to substantial job creation. We thus conclude that net employment effects of renewable energy expansion strongly depend on prevailing labour market conditions. If a RES-based energy supply requires additional inputs of economic resources, and if the economy is already producing at its production possibilities frontier, other economic activities may be crowded out. Additional production possibilities may, however, arise via higher productivity or increased labour supply. This result hints to the importance of labour market policies as a supplement to RES expansion, for instance, in the form of measures to increase labour market participation. In any case, net job effects of renewable energy expansion are much smaller than gross employment effects.

Our disaggregated analysis indicates that renewable energy expansion also triggers sectoral restructuring, as the expansion of renewable energy results in a re-allocation of economic resources. In particular, fixed and human capital are being invested in RES technologies instead of conventional energy technologies. This underlines the need for labour market policies, in particular for additional qualification measures. This may require further research as little is known on the transformation of existing jobs, that is, changes in skill requirements and job profiles (UNEP, 2008).

Last, but not least, we want to recall that the primary aim of a transition towards RES is to reduce environmental impacts and to improve the long-term security of energy supply. Our analysis suggests that these benefits can be obtained without sacrifices of income and net employment.

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