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Green and Purple Money

This is a reprint of a Letter to the Editor in April 2003 Energy User News by Joel M. Levin, Ph.D.

If I were to offer to sell secure bonds for $100,000 with the assurance that they would yield an annual return of $25,000 per year for the next ten years, I would need a security team to maintain order in the line of frantic buyers, given the current economic climate.

However, if I were to offer the CFO or CEO of most organizations the opportunity to invest $100,000 to reduce annual energy costs by $25,000 per year for the next ten years, most of them would say, "Thank you very much. We will take this under consideration." But the project would never see the light of day.

Perhaps there is an intrinsic character flaw that American decision-makers call a blind spot. Or, perhaps it is insufficiently manly to be concerned about reducing energy consumption. Or, perhaps ……the list goes on.

Let me cite some examples that I have recently observed:

The president and CFO of a university, who would have leaped at the opportunity to find bonds yielding 5% of their shrinking endowment fund, chose to "postpone" an energy conservation project, which offered a four-year payback because their budget was too tight.

A major U.S. corporation was presented with a proposal to reduce its energy consumption at a major facility by $250,000 per year with a payback period of 3.8 years; they are considering performing some deferred maintenance instead.

A major hospital specified that energy conservation projects would not be considered unless the simple payback was less than 3 years.

In a desperate effort to explain this bizarre behavior by otherwise solid, respected corporate citizens, I have developed the following hypothesis. There are two kinds of money: green and purple. Real investment decisions are made with green money. Professional managers carefully calculate of rates of return and establish priorities for projects involving green money. However there is also purple money, and energy bills are paid with purple money. Saving purple money is not important because purple money does not impact profit and loss statements. Evidently, expenditures to achieve energy cost reduction require green money for implementation, but the money saved is only purple money. Therefore, the savings don't count. Consequently, the implementation cost of energy conservation projects is viewed as an expense (to be avoided) rather than as an investment (to be embraced).

This theory would explain the apparently irrational behavior that governs decision-making for energy-efficiency investment in our country.