GREENING BREXIT

THE NEED FOR TRANSITIONAL INVESTMENT

The Greens | EFA
in the European Parliament

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CONTENTS

EXECUTIVE SUMMARY

Statements from the Chancellor indicate that the self-imposed, politically motivated, and socially damaging politics of austerity has come to an end.

The extended period of very low interest rates has not addressed key problems of failure of investment and more innovative policies are now required.

We reject an investment policy based on the three Hs – Hinkley, HS2, and Heathrow – which are vanity, white-elephant projects that do not meet our national needs in the 21st century.

We would propose four Green priorities: real progress on the path to building a sustainable, self-sufficient and secure energy system; a lower carbon public transport system accessible to all; a programme focused on providing high-quality, low-energy social housing; a programme to limit the damage caused to Britain's world-class scientific community by the withdrawal of EU funding.

The flagship investment would be a massive, labour-intensive free nationwide home retrofit insulation programme, concentrating particularly on areas where fuel poverty is most serious. At a cost of £45bn over 5 years this could insulate 9 million homes in total and take at least 2 million homes out of fuel poverty, and create well over 100,000 jobs.

On housing, we would seek to provide 500,000 social rented homes by spending £6 billion a year over 5 years, removing borrowing caps from local councils, and creating 35,000 jobs.

We also propose the direction of QE towards the green transition; increases in taxes on the wealthy and on polluters; and the lifting of the borrowing cap on local authorities and the expansion of municipal bonds.

THE END OF THE MONETARY ROAD

The dominant slogan during the six years of the Osborne supremacy was 'living within our means'. The Green Party has always been clear that austerity was a politically motivated economic policy, aimed at shrinking the state and enhancing the power of private capital. Its economic consequences have been severe and destructive: reducing taxes has led to vast reserves sitting on corporate balance-sheets rather than circulating in the economy, alongside the falling quality of infrastructure that is essential to the productivity of most enterprises. The social costs of austerity have also been severe, reducing social safety-nets and increasing inequality.

The August meeting of the Bank of England Monetary Policy Committee decided to reduce interest rates to even more historically unprecedented levels. Given the Governor's stated opposition to negative rates, this means that we have reached the end of the road in terms of what interest rate cuts can achieve.

The Bank's reluctance to cut interest rates further is partly because there is little scope for them to be any lower and also a doubt that making money cheaper can any longer achieve anything for the economy. In the context of a falling pound, making the imports on which British consumers and businesses depend more expensive, the Bank also has a wary eye on its official responsibility for keeping inflation to their 2% target.

This description is not a radical account of the state of the UK economy. Speaking from China, where he had rushed to shore up foreign direct investment into the UK, Chancellor Hammond said 'We are clear that we are going to support the economy over this period, so we can take advantage of the opportunities that the referendum gives us in the medium and long term.' (22 July) Having already relaxed Osborne's target of achieving a surplus in the public finances by the end of this parliament, this signals the end of austerity and a return of public investment. Given that the public finances are in a worse state than when Osborne became Chancellor this indirectly proves that austerity was always a political ploy. Hammond's rejection of austerity was reinforced by the Prime Minister's emphasis on the need for an 'industrial strategy'.

Osborne's economic policy was primarily 'performative': far from mending the roof he allowed the UK home to fall into further disrepair while literally preventing local authorities from borrowing to build the real homes people need to live in. After years of austerity we are in a very weak position to withstand the Brexit shock in terms of physical and social infrastructure. The UK is a country disfigured by broken and divided communities, exhausted by years of austerity and encouraged to compete over under-funded services that are run for private gain not public need.

Osborne's policy was also economically incoherent. His tax cuts for wealthy individuals and corporations were justified in terms of unproven economic theories and resulted in allowing the hoarding of cash, starving the real economy of necessary investment. There has been a similar effect from the continued addiction to financialisation - favouring the finance sector at the expense of other parts of the economy. As the Brexit shock challenges investor confidence we must urgently reverse this approach and substitute public investment for failing private investment.

This short paper is intended as a contribution to the debate in this new post-austerity era. The way money for public investment is raised is crucial, and it goes without saying that as Greens we have a clear sense of what the priorities for spending should be. As the builders of nuclear power stations, roads and airports circle, we are determined that public investment should focus on the green transition and should be achieved in a way that feeds the real economy rather than the financial economy.

BORROWING AND SPENDING TO STIMULATE THE GREEN TRANSITION

As it becomes clear that Brexit is likely to mean Hard Brexit, we can anticipate a stalling in private investment due to the uncertainty around what our trading relationships will be in future. There have been heavy hints that to substitute for this decline in private investment we will see a renewed government commitment to public investment, particularly in infrastructure, in the forthcoming Autumn Statement. Labour has made similar commitments to a £500bn investment programme, mainly operated through a National Investment Bank and a string of new regional banks, comprising public and private money.

Both Tories and Labour are unspecific as yet as to what the infrastructure investment should be in, but we can be sure that transport in particular will figure high on the list, with trunk roads, high speed rail and airport expansion, of which the permission for the third runway at Heathrow is just the precursor. In spite of the the Hinkley C fiasco, new nuclear power will be the token item presented as necessary to meet the need to fight climate change. In consequence the Treasury's boosted-up National Infrastructure Commission shows every sign of coming up with the same failed priorities, which is likely to result in simply a new procession of white elephants.

We argue that these are the wrong priorities. We need above all to make real progress on the path to building a sustainable, self-sufficient and secure energy system, and to build a lower carbon public transport system accessible to all. We also need to address the major social problem of the age, the lack of social housing to rent, by building new council housing where we need to and also acquiring other existing housing to let at social rents. And we need to be sure we quickly remove one of the major own goals of Brexit, the damage caused to Britain's world-class scientific community by the withdrawal of European Union funding.

But it is important to remember too that that the economy needs a stimulus now, not in the medium to longer term. Most infrastructure investments – such as major transport projects and nuclear power – often take 5 years to start and 15 to complete.

So we would concentrate initially on a massive, labour-intensive free nationwide home retrofit insulation programme, concentrating particularly on areas where fuel poverty is most serious. Over 5 years this could insulate 9 million homes in total and take at least 2 million homes out of fuel poverty. It will offer up to £5,000 worth of free insulation, or other energy improvements, to every home in designated areas. This programme would invest £45 billion over five years, be delivered by local authorities and create well over 100,000 jobs. But crucially it could be started almost immediately, providing real benefits this winter to some of our poorest households.

Another area where rapid action is required is replacing the EU money currently funding our R&D effort, and also increasing it in certain areas crucial to building a sustainable economy, such as research on novel forms of renewable energy and energy storage. We also need to start a longer-term programme to bring public spending on R&D up to the levels of comparable countries. We would be prepared to spend around £3bn per annum on R&D next year over and above existing government funding, rising to £7bn by the end of the period, and totalling £25bn over five years.

The most exciting aspect of the green transition that is taking place in many other economies is that it is leading to dynamic innovation and rapid advances in technology, especially in the areas of smart grids, demand-and-supply management, and energy storage. To ensure that we are not left behind, the Government needs to ensure that there will be financial incentives and grants to replace the EU grants that will be under pressure as Brexit approaches and are already facing a hiatus due to the Chancellor's statement that only projects signed off before the autumn statements will be guaranteed.

Building new social housing of course takes longer; land has to be acquired and planning permission agreed. But what can be done quickly is acquiring existing housing, converting it if necessary, and making it available as social housing at affordable rents. Local councils could then move on to building new council housing where necessary. In total we would seek to provide 500,000 social rented homes by spending £6 billion a year over 5 years, removing borrowing caps from local councils, and creating 35,000 jobs.

Large-scale and prestige transport projects are likely to feature high in the government's priority spending list. We argue that this is entirely misguided: the green transition needs to ensure that transport-related spending is targeted on public transport, especially railways and buses – and away from the usual suspects of roads and airports. We also need to ensure that this investment is radically rebalanced. Of all the government-induced inequalities between the UK regions, that caused by the vastly unbalanced nature of transport infrastructure spending is the most glaring, as demonstrated by recent research from the IPPR. In their recent report Still on the Wrong Track they show that 66% of funding for transport projects where the public sector is involved as a funder is in London with only 0.2% in the North East and 0.3% in the South West. An equitable approach to transport infrastructure spending would achieve far more in terms of rebalancing the UK economy than the gimmicky politics of the 'northern powerhouse' and any number of 'metro mayors'.

We believe that the emphasis on large-scale investment is also misplaced. In the place of unsustainable expenditure on ever more roads, airport capacity and prestige projects like HS2 which mostly benefit only an elite, we would concentrate transport investment on improving public transport and increasing the opportunities for safe and healthy walking and cycling. Some of this can be done very quickly; for example improving our disappearing rural bus services simply requires more buses and more drivers.

As demonstrated by government figures, we are much closer to meeting our renewable electricity targets than we are to meeting our general renewable energy targets. Renewable generating capacity had increased to 17.8% in 2014, largely as a result of financial incentives (since withdrawn), but heating and cooling from renewable sources stood at only 4.5% and transport fuel from renewable sources at only 3.2%. The UK has some of richest renewable energy resources in Europe but these are not being developed because our government lacks vision and fails to see the economic opportunities from this sector. It has also failed to use the power of public-sector procurement to drive the transition, relying on individual consumer decisions and market tinkering. As an example, the UK government has relied on people to choose to buy electric vehicles or offered a small reduction in road tax for smaller-engine vehicles, in contrast to policies in other European cities that involve investment in public transport powered by renewable energy, such as electric trams or biogas buses.

Finally we have been far too slow to create a sustainable and secure energy generation and distribution infrastructure. Given the huge economic potential of this sector this is a tragic failure of vision that any industrial strategy worth its salt must rectify urgently. The grid in particular needs major investment to meet the needs of a generation system based on renewables. We would invest substantial amounts of public money (up to £35 billion over 5 years) in renewable generation and in the National Grid, to make sure renewable generation grows quickly enough. This would include both large-scale generation and small- and medium-scale renewable generation schemes funded through local authorities. This capacity would not necessarily be publicly owned and would include community-owned schemes.

We set out a detailed table of these proposals in the Appendix. We include also additional funding for much needed flood defences, and for increasing sustainable waste disposal. In total this amounts to a £200bn package over five years, with a £30bn boost to the economy in the first full year (hopefully 2017).

LOOKING MORE WIDELY: GREEN QE, INCREASING TAXES, FREEING LOCAL AUTHORITIES

If the prospect of a hard Brexit causes a decline in private-sector investment, the Bank of England may introduce further quantitative easing as its scope to reduce interest rates further is eroded. Earlier experiments with QE focused on releasing vast amounts of liquidity into the banking sector, most of which failed to reach the real economy. This time the suggestion is that the Bank might include corporate bonds in its asset purchasing programme, thus further increasing the size of stagnant corporate balance-sheets.

The Bank of England's power to create new money through QE must be harnessed to address the country's social and political priorities. QE should be redesigned to contribute to the structural economic transition which now urgently needs to take place - the transition to a low-carbon and pro-environmental economy. We refer to this as 'green QE'.

The basic idea is that the Bank of England buys debt not principally from other banks but instead from private-sector businesses, local and regional governments, and social enterprises, where those organisations can demonstrate that the money will be used for green purposes. This form of QE would – rather than boosting banks' reserves and profits – boost the green sector of the economy, and green activities, practices and projects throughout the economy.

Which types of projects and enterprises would qualify as 'green'? They would have to be making a contribution, at whatever scale, to the process of transition to a greener economy and society. For example, their work might be leading to a reduction of carbon emissions or of negative impacts on ecosystems. The areas this implies are now pretty well-established, and include:

- **Insulation and ecological design and construction of buildings**
- **Public transport, walking and cycling schemes**
- **Arrangements for the collection, recycling and/or re-use of materials, and for waste minimisation**
- **Renewable energy projects**
- **Energy, water, metals and other resource efficiency promotion and implementation**
- **Nature conservation schemes**
- **Research, development, and application of environmental technologies for monitoring and measurement, e.g. for pollution control**
- **Environmental and sustainability education and awareness raising**
- **Ecologically sound agriculture and food production**
- **Noise reduction barriers and technologies**
- **Land and soil decontamination**

Another source of funding for green transition – along with QE and borrowing – is the most obvious of all: taxation. However this does not have to mean simply relying on existing taxes. There is a need here for innovation in the tax system, to tackle key problems such as tax evasion and inefficient use of resources.

- **A wealth tax, taxing the ownership of property assets such as buildings, is hard to evade because these assets are mostly located within the country and difficult or impossible to move.**
- **A reformed corporation tax, ensuring that multinational companies which currently avoid paying tax here through claiming that their operations are sited in some other, low-tax, country are taxed on their revenue within the UK.**
- **A system of carbon emissions permits, along with taxes to curb emissions from aviation and shipping.**
- **A Land Value Tax, to return to the public purse increases in property values created by public investment in transport and other infrastructure.**
- **A Financial Transactions Tax, to discourage the economic destabilisation caused by extreme short-termism in financial markets.**
- **Tax incentives to encourage the use of recycled materials and disincentivise the use of virgin materials.**

Especially now with interest rates so low, the Government should lift borrowing caps for local authorities. Councils could choose how to spend this money so long as it was for long-term investments achieving environmental objectives, for example building new social housing that meets high standards of energy efficiency. Much of this borrowing could be organised through municipal bonds, enabling people to invest in particular parts of the country, perhaps where they live.

CONCLUSION: THE TRANSFORMATIVE POSSIBILITIES OF THE BREXIT VOTE

We did not support the Leave side of the referendum argument. However we recognise that Brexit does provide some opportunities for radical change in the UK economy, for example in trade relations and expenditure on agriculture.

The economic challenge of Brexit has shocked the government out of the policy of austerity and offers us important opportunities in terms of making significant and timely investments in the transition to the greener economy that climate change demands. The hints so far, presumably as a result of behind-the-scenes lobbying from existing friends of government, is that we will see the emphasis on large-scale, prestige projects. We argue that this is entirely the wrong choice for five main reasons:

1 The most important crisis facing us is tackling climate change to ensure a liveable planet for future generations. This should be the guiding principle for public investment.

2 The diverse investments proposed here, especially in home insulation, while less glamorous than new roads and airports, can immediately improve the standards of living and health of some of the most vulnerable people in our society and help to address another glaring social problem we face: rising inequality.

3 As Hinkley has so clearly demonstrated, the large-scale prestige projects traditionally favoured by government have extremely long lead times, something which we cannot afford when the threat of loss of investment from Brexit is immediate.

4 Massive, static and fixed investments also fail to respond to technological changes which demand localised and distributed technologies, especially in the field of energy. To benefit from the cutting-edge technologies as they emerge the Government needs to produce a dynamic and flexible investment strategy, rather than following historic trends of concentrated investment.

5 Finally, investment needs to be geographically balanced, another benefit which can be achieved from a focus on public transport improvement, grid upgrades and a nationwide home insulation programme.

PROPOSED INFRASTRUCTURE INVESTMENT ITEMS	COST £BN IN EACH YEAR					
	2017	2018	2019	2020	2021	5 YEAR TOTAL
Extra funding for flood defences	1.0	2.0	3.0	4.0	5.0	15.0
R&D funding to replace EU funding	3.0	3.0	3.0	3.0	3.0	15.0
Major investment in renewable generation and the grid	3.0	7.0	10.0	15.0	15.0	50.0
Building insulation, mainly houses	9.0	9.0	9.0	9.0	9.0	45.0
Increase spending on recycling and waste minimisation	2.0	3.0	4.0	5.0	6.0	20.0
Expansion of social housing	6.0	6.0	6.0	6.0	6.0	30.0
Public transport, walking and cycling	5.0	5.0	5.0	5.0	5.0	25.0
TOTAL INFRASTRUCTURE INVESTMENT	**29.0**	**35.0**	**40.0**	**47.0**	**49.0**	**200.0**