TURN THE ‘GREEN DEAL’ INTO A GREEN NEW DEAL: THE FIRST STEP TO SAVING THE ECONOMY

A Call to Action From the Green New Deal Group

The era of procrastination, of half measures, of soothing and baffling expedients, of delays, is coming to its close. In its place, we are entering a period of consequences.

Winston Churchill, 12 November 1936

The Consequences of George Osborne's Real Deficit – falling effective demand

On 1 November the Office for National Statistics will announce the provisional UK gross domestic product (GDP) figures for the third quarter of 2011. Expectations are that the figures will be poor. This reflects the fact that economic growth is flat lining and, as we predicted in our report 'The Cuts Wont Work',[1] the austerity measures promoted by the Coalition government are hindering rather than helping recovery. Those measures have increased unemployment and poverty and hence the cost of benefits and as a consequence reduced the tax take.

It is now time to take serious and large scale measures to begin to sustainably tackle the downturn in economic activity, jobs and business opportunities.

The Department of Energy and Climate's (DECC) Minister Greg Barker is in charge of the one Government policy that could play a massive yet rapid role in generating employment and new business opportunities- the Green Deal. The Chancellor George Osborne is under intense pressure to act to restart economic activity in the sagging UK economy. Given that virtually all government policy is in fact reducing such economic activity it is time to start by fast tracking and putting billions of pounds into this government's only significant potential job generator – The Green Deal.

WHAT IS THE GREEN DEAL?

Put simply, the Government is establishing a framework to enable private firms to offer consumers energy efficiency improvements to their homes, community spaces and businesses at no upfront cost, and recoup payments through a charge in instalments on the energy bill… if they move out and cease to be the bill-payer at that property, the financial obligation doesn't move with them but moves to the next bill payer: The expected financial savings must be equal to or greater than the costs attached to the energy bill, known as "the golden rule" of the Green Deal.[2]

Since the present 'Green Deal' proposals aren't yet set in stone is crucial that the way it is eventually rolled out fully addresses the need to dramatically reduce fuel poverty.[3]

Turning the Green Deal into a £50 Billion a year Green New Deal

In 2008 the Green New Deal group published a report of the same name that correctly predicted the economic crisis to come and proposed a £50 billion a year energy saving and renewables programme to revitalise the economy, strengthen energy security and reduce the threats from climate change. Central to our analysis and demands was the need for the finance sector to act as servant to the economy in which it operates.[4]

Compare this ambitious programme with the 'hold your breath' press release of last March regarding the Government's only potential large scale job generator the Green Deal. This it trumpeted as: '.. a great opportunity to seal Britain's draughty buildings. To succeed we'll need a big injection of skills and investment which is why today's announcement is important'. And that announcement was: 'At least 1,000 Green Deal apprentices could receive government funding towards their training'. Compare this feeble goal with the fact that "In the last 18 months, British Gas created 1,000 new green collar jobs and ..(is) planning to recruit almost 2,000 more this year."

In the same statement Energy and Climate Change Secretary Chris Huhne did promise that the Green Deal would "support" 100,000 jobs by 2015.[5] However the present desperate need for the UK economy to find huge numbers of new jobs and new economic activity means a far more ambitious and adequately funded government programme is needed.

Funding the massive Green Deal Britain needs

It is widely expected that the Bank of England will be forced by the economic slowdown to introduce a further round of Quantitative Easing (QE3). There are increasing calls for the next round of e-printing of tens of billions of pounds to be spent on the real economy.[6] This report proposes that the government uses £20 billion from QE3 to underpin a massive expansion of the present far too modest Green Deal programme.

Sign up to the Green Deal and get a £1,000 disruption fee

Secretary of State for Energy and Climate Change Chris Huhne has stated that up to 14 million homes could benefit from the Green Deal.[7] The energy saving measures involved will include draught stripping, cavity wall or solid wall insulation, fitting smart meters and where applicable the placing of solar photovoltaics on the roof.

Take-up of these measures could be slower than is desirable because people dislike disruption and so an incentive to householders would be a useful way of encouraging people to take part in the Green Deal. Although the reduction in energy bills is expected to be an inducement, we propose in addition that every householder that signs up receives a £1,000 'disruption fee' perhaps via council tax rebates to compensate for any domestic disturbance involved. This should provide a massive boost to the take-up of the programme.

We therefore call for £10 billion of QE3 to be allocated into a fund to cover this cost over the period of the Green Deal's existence. This approach will have three benefits. Firstly it will ensure many more energy efficient households and so should save energy in the long term, hence reducing the energy import costs that we may have difficulty paying for. Secondly, it will result in more jobs being created. Thirdly and crucially much of the £10 billion is likely to be spent straight into the economy and so help to stimulate broader employment.

QE3 facilitating training for the Green Deal

We have calculated that a further £10 billion of QE3 invested in training or re-skilling 1.5 million people would bring 120,000 people back into the workforce, and increasing the earnings of those with a low income by a total of £15.4 billion. This would go help kick start effective demand in the wider economy.[8]

Large scale Plans for the Green Deal – Birmingham shows the way

Birmingham City Council is governed by a Conservative/Lib Dem coalition and is the UK and Europe's largest local authority. It plans to invest £75 million pounds in a £100m programme at no long term cost to the tax payer to carry out energy efficiency improvements and where feasible fit solar PV in 15,000 homes in the City. This will form part of the Government's forthcoming "Green Deal" programme. A second and third £100million programme is envisaged to use money from banks which would show the viability of private sector involvement and could provide a useful precedent to allow eventual pension funding The proposed initial £100 million scheme is the largest so far proposed in the UK. The Council also plans to work with over 20 other local authorities, and 10 public sector bodies including police and fire services and housing associations in the West Midlands and this could result in a £1.5 billion self-financing initiative in the region by 2020.[9]

Birmingham Council announced that it sees such a large scale scheme as a way to revive the region's industry. There are local concerns that much of the hundreds of millions of pounds to be invested could go overseas to China where the majority of solar panels are produced, or Scandinavia and Germany where wind turbines are manufactured. The Council is therefore looking to businesses to develop green manufacturing in the West Midlands. This is why we propose a Green New Deal that will foster the building of green technology manufacturing capability in the UK.

The Council estimate that 55,000 jobs could be directly generated by the initiative, ranging from installation engineers, to manufacturers and designers. Aston University and Birmingham City University are already involved as they are seen as being at the cutting edge of research and development of new green technologies. Lib Dem Council deputy leader Paul Tilsley likened the pioneering scheme to the creation of Birmingham's own electric, gas and water supply companies under Joseph Chamberlain in the late 19th century.[10]

Medium Term Plan- bring in the pension funds

It is expected that after two or three years the banks that are likely to be eventually involved in funding the Birmingham scheme, (as well as one planned for Newcastle in conjunction with nearby local councils), will want to sell their interests in the first set of energy efficiency programmes. It is at this point that the big players in the form of the pension funds should become involved. Provided around £300 million of capital is involved in these types of projects, there is a big enough pot that a bond issue could be raised against it and hence the pension funds could then be the purchaser. Their funds will then be used for the next round of investment in an ever larger scale energy efficiency programme.

Funding a long term Green New Deal for the UK

Once such large scale spending, initially within the Green Deal, has helped breath life back into the deflated economy, a broader Green New Deal transition programme will need to be financed. This will include continued training of a carbon army to install energy efficiency to all UK buildings that need it, thus creating jobs where people live. A large scale national renewable energy programme will also be key.

The Green New Deal group has in previous reports proposed a new savings and investment infrastructure for funding such a huge shift to a more sustainable UK economy. These new measures help national and local governments to borrow for public investment, as well as encouraging private investment from individuals and pension funds in greening and reviving the economy. These include:

- **Creating a market whereby a minimum of 25% of new pension funds invested annually goes into a diversified range of green investments** in return for the tax relief given on the £80 billion contributions received each year. This investment in new jobs, new technology and new business opportunities for the UK will help ensure a decades long programme of economic activity that can create a truly sustainable future for the next generation.[11]

- **An intergenerational solidarity programme** whereby the more affluent of those baby boomers born before the mid-60s are encouraged to support younger jobseekers through investing some of their pensions and other private savings in a massive labour intensive energy-saving programme, with the repayments coming from the resulting lower energy bills. Younger people would be the main beneficiaries through the wide range of jobs created during such a long term multibillion-pound initiative.

- **Green bonds,** which will be issued by the government with the explicit guarantee that the funds raised will be invested in new green infrastructure for the UK. The bonds will carry conventional rates of return for bonds

- **Local authority bonds are one of a range of ways for councils to raise finance and one that has been receiving more attention recently** in response to the Treasury raising by 1 per cent the cost of local authorities borrowing from them. Such future local authority bond issues could be invested in energy efficiency and provide renewable energy for each of the country's three million council tenants, as well as for all other local-authority-owned or -controlled buildings, such as town halls, schools, hospitals and transport infrastructure

- **Tax incentives on green savings and investment**, so that future ISA (Individual Savings Account) tax relief – costing more than £2 billion a year[12] – is only available for funds invested in green savings (tax relief for ISAs was more than the whole green stimulus package announced in the 2009 Budget, estimated to be worth just £1.4 billion.

- **A general tax-avoidance provision** to end the abuse of tax allowances. If just half of the tax avoidance in the UK was stopped by this provision and engaging new staff at H M Revenue & Customs it would raise more than £10 billion a year.[13]

- **A Financial Transaction Tax,** commonly known as a "Tobin Tax". Such a tax, applied internationally at a rate of about 0.05 per cent has the potential to raise tens or even hundreds of billions a year[14]. This could be the basis for a Green New Deal in the Global South, playing a significant role in enabling the majority of the world to adapt to climate change as well as dramatically reducing fossil fuel dependence.

Endnotes

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2 http://www.decc.gov.uk/assets/decc/legislation/energybill/1010-green-deal-summary-proposals.pdf

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12 http://www.hmrc.gov.uk/stats/tax_expenditures/table1-5.pdf

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14 http://robinhoodtax.org/

This paper is published by the Green New Deal Group.

Meeting since early 2007, its membership is drawn to reflect a wide range of expertise relating to the current financial, energy and environmental crises. The views and recommendations of the report are those of the group writing in their individual capacities.

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