

2. A GREEN NEW DEAL

The climate crisis is no longer something we are heading towards. From extreme weather to melting glaciers, its effects are already here. The next UK government must develop and introduce an economy-wide plan to deliver net-zero²⁶ UK emissions and boost nature everywhere with urgency.

A decade ago, NEF was part of a visionary group that proposed a Green New Deal²⁷ and we are now part of a growing global movement that is reviving and updating this concept.²⁸ The plan is for huge investment in the economic future of the UK, to combat the crises of inequality and climate change at the same time.

In this context, NEF argues that the concept of a just transition is of paramount importance. All of the actions aimed at an ecological transformation of the economy must be socially just. In this respect, we see the Green New Deal as a means of delivering the goal of a just transition and not the other way around.

TOWARDS NET ZERO

The current government has legislated to achieve net zero by 2050. Many campaigners are calling for this to be achieved much sooner. NEF supports the achievement of net zero as soon as possible but recognises (as does the Committee on Climate Change) that the UK currently lacks policy in a range of key areas, such

as buildings insulation, surface and air transport, curbing industrial emissions, and phasing out fossil fuel extraction.

So while the date of arrival at net zero remains critically important, and must be much sooner than 2050, the rate at which emissions reductions take place and the policy to achieve deep cuts is of greater importance.

For instance, based on the IPCC's assessment of the likely remaining 1.5 degree global carbon budget, the UK may have a remaining national carbon budget of around 3-3.5 GtCO₂²⁹ on route to achieving net zero. Even if we were to maintain annual emissions reductions of at least 10% per year from now on, that budget would be exhausted by around the mid 2030s and before the net zero target had been achieved; **the challenge is a massive ramp-up in policy and investment now.**

The UK has fallen behind with progress in a number of key areas in which a transformation of the economy is needed, most notably in home energy efficiency and heating, investments in the electricity grid, electric vehicles and public transport, industrial decarbonisation, and some renewable energy technologies.

- Government must now bring forward **a fully costed Green New Deal programme, capable of deploying and attracting a mixture of public and**

private investment.³⁰ The investment programme must also be focussed on how policies can help reduce inequality and create jobs.

- As an absolutely key priority for a Green New Deal, government and new regional combined authorities (see The Democratic Economy below) should **bring forward an integrated programme of home and commercial insulation, energy efficiency and renewable heating.** Insulating homes has the potential to create £3.20 of economic activity for every £1 invested, and 108,000 jobs every year between 2020 and 2030.³¹ The cost of replacing gas boilers is likely to be offset by reduced fuel costs in the long run.³²
- An investment programme would also include incentives and infrastructure for electric vehicle roll out, a speeding up of renewable energy installation, rolling out a smart electricity grid, public transport and the decarbonisation of key industries, such as steel and cement production. NEF's recent work on a Green Fiscal Stimulus examines the macroeconomic costs and benefits of government investment in such a programme.³³
- Environmental regulation will be critical to steering investment across the economy towards the aims of a Green New Deal. Over the past decade, the UK Government and, under its influence, the European Commission, have pursued an approach in which any new regulation can only be approved if an existing regulation is scrapped. **This 'red tape challenge' approach to regulation is ideological and must be scrapped.** In a climate emergency – and in the context of deep inequalities – new regulations to raise standards, cut emissions and reduce poverty are essential and will almost certainly outnumber those that can be scrapped.

There are three, key underlying elements of a Green New Deal programme:

1. FINANCE A GREEN NEW DEAL

The state and public institutions have the decisive role to play in delivering sufficient finance to support a Green New Deal. The Committee on Climate Change argues that the UK must invest 1-2% of its GDP³⁴ to 2050, which would come from both government and private sector sources. However, this level of investment is insufficient if we are to meet net zero much sooner than 2050 in a socially just way.

The level of public and private investment must be as high as is necessary to secure a clean economy in time. To catalyse this investment, government should commit to spending 2% of GDP as public investment in its first budget.³⁵ But as with the rate of emissions reduction, opportunities to frontload investment should be seized to reduce future costs, hasten decarbonisation and to address the political crisis by driving investment into the places that most need it.

Her Majesty's Treasury must align its entire function and portfolio – from the rules that govern evaluation for public expenditure to its oversight of the Bank of England – with the task of achieving zero emissions and addressing wider ecological crisis.

GREEN FISCAL POLICY

In the face of a climate emergency and other acute ecological crises, the burden of which fall heavily on the shoulders of poorer communities at home and abroad and future generations, government must use fiscal policy and not just rely on signposting private finance.

While always reserving some headroom

in case of recession, it is irresponsible for a government not to maximise the use of fiscal space; this is true both in support of a new social settlement and for a Green New Deal. Because current fiscal rules target deficit and debt reduction, the level of fiscal space that is in practice available to the government is currently underutilised, probably significantly so. As we argue above in a New Social Settlement, one of the most pressing tasks for a new government is to develop a new fiscal rulebook.

- **The Treasury must rewrite its rulebook governing all government appraisal of projects and policies.** All government spending would be required to meet new green (and inequality) tests to ensure that tax, spend and investment policy supports the net zero target.
- Green New Deal fiscal policy needs to be 'recession ready' so that likely job losses and underinvestment by the private sector is compensated for. This means that **while the government should maximise investment in productive, emissions-reducing measures now, it should also plan to dial these up further if the economy appears to be showing recessionary tendencies.** Seizing this opportunity is fundamental to achieving the rate of reductions necessary, and failing to dial up investment in a recession could derail them.³⁶

GREEN CENTRAL BANKING

Following recommendations by NEF and others, the Bank of England has begun work to assess and disclose the climate impact of its own balance sheet. But the activities of a central bank should go much further.

- The policies introduced to guard against systemic risk post-financial crisis should

be further adapted to take account of systemic climate risk. The Bank of England should therefore **introduce new, green macro-prudential policies, which would require private banks with a high exposure to ecological harm to hold more capital as a hedge against the risk** and to incentivise green investment.

- The Bank of England must also actively **increase the level of bank lending directed towards green and ecologically benign businesses and small and medium enterprises (SMEs)** by introducing a credit policy framework so that it can help guide credit towards productive ventures.³⁷
- The Bank has urged financial institutions to proactively manage climate risks, but it needs to practice what it preaches and **integrate climate risk into its own monetary policy operations.**

A NATIONAL INVESTMENT BANK

Most major economies have a national investment bank to act as a cornerstone financier of government economic strategy. Not only do such institutions help crowd in private sector finance, they also keep investment decisions at arms-length from executive decision-making.

- **A new, Green New Deal mission-orientated National Investment Bank must be established,** which could either use the government's remaining 62.3% stake in RBS as a starting point or develop a new institution, as the Scottish government is currently working on.

A POLICY OF 'REVIEW AND REVERSE' FOR FOSSIL FUEL SUBSIDIES

Across its tax and spend portfolio, the UK has significant fossil fuel subsidies.

Estimates for the overall level of subsidy vary depending on definitions – the European Commission, for example, reported that the UK has the biggest fossil fuel subsidies in Europe, at about £10.5 billion per year.³⁸ Some of these are in the form of tax breaks on oil and gas investments, and others impact more directly on consumers, such as the 5% rate of VAT on household fuel bills.

- While the removal of all of these cannot be implemented immediately, **the Treasury should commit to a fair reversal of its full range of fossil fuel support no later than 2025, and redirect these into funding for a Green New Deal.**

2. A JUST TRANSITION IN PLACES

Addressing the ecological emergency can also help address the inequality crisis, especially through the lens of industrial policy. In doing so it may also ease the crisis of democracy, but only if places are empowered to find their own routes to transition.

Making the Green New Deal fair and driving its benefits into the places that most need them must be an explicit, legislative aim of a Green New Deal, to the extent that government and government-led investment must target reductions in inequality at the aggregate national, inter-regional and intra-regional levels. While this must be the case for all aspects of a Green New Deal (for instance, bringing zero-carbon public transport to places that are currently poorly served, or insulating the homes of those who most struggle to meet the costs of domestic heating), a key part of this will be ensuring that the industrial transition is just; no one and no places should be left behind.

Industrial change is a constant process; much of the technological change that is essential to combatting climate change is already underway. But left to the hidden hand of the market, this process may reward people and places that are already in a position to benefit and further harm those that are not. Government must therefore rediscover its role as manager and broker of change.

In practice, this means an explicit commitment to invest in and support regions of the country that are reliant on a high level of industrial emissions. For instance, Yorkshire and Humber and the East and West Midlands are the most carbon intensive English regions while also being the regions that have seen the least growth in gross value added (GVA) in the past decade. London, on the other hand, is the least carbon intensive region and has experienced the highest GVA growth.³⁹

ESTABLISH REGIONAL AUTHORITIES WITH A JUST TRANSITION DUTY

In the Democratic Economy section below, NEF proposes establishing new City and County Regional Combined Authorities to lead the process of national renewal at the local level, bringing new, democratic vigour to the space that Local Enterprise Partnerships currently fill. These combined authorities would be responsible for managing and brokering local transformation and share the same overarching Green New Deal aims and duties as central government.

- Combined authorities would **have Green New Deal duties and would be required to develop a just transition plan to meet these.** The process of developing and implementing the plan would explicitly involve affected communities, workers and their unions, firms and elected representatives.

- The Green New Deal has the potential to create hundreds of thousands of good jobs. **A further duty of combined authorities, in concert with national government, would be to develop radical skills strategies that animate this promise.** As Unison argues, the UK will not meet aggressive decarbonisation rates if it treats the workforce required as an afterthought.⁴⁰
- As well as embedding union representatives in the creation of regional plans, new combined authorities would be obliged to **include union recognition agreements as a condition in any state-led investments or procurement contracts.**
- As transport is such a key aspect of decarbonisation, decentralisation and regional development, **HS2, which will further entrench regional disparities, should be scrapped and the planned investment capital redistributed to new regional combined authorities** as part of a new focus on regional, integrated transport strategy.⁴¹

DEVOLVED JUST TRANSITION FUNDS

As part of the process of managing industrial change fairly, national government would also devolve a proportion of its Green New Deal budget to new combined authorities to support their just transition plans. **Of the 2% of GDP for a Green New Deal that the government should commit in its first budget, one-quarter (which would be around £10 billion in 2019/20 terms) should be devolved to regional authorities in the first year, rising to half in year three.**

- As well as supporting regional capital investment via just transition plans, these funds would include **resources**

for the reskilling of workers and paid time off to retrain, for education and to take part in the just transition process. This idea is based on the German ‘short-time work compensation schemes’ where employers are supported with public funds to avoid unnecessary redundancies by temporarily reducing working hours to meet reduced output requirements, with wages maintained.

- Central government must also **disaggregate the national carbon budget to regions**, which in the first instance would afford more emissions space to places that are currently dependent on higher carbon emissions. All regions would be obliged to reduce emissions in accordance with the national trajectory, but would have autonomy over how they achieved this, within the wider aims of the Green New Deal.

NEW DEALS FOR COASTAL AND RURAL COMMUNITIES

As localities with very specific opportunities and challenges, government and regional combined authorities should treat the coast and the farmed environment as unique cases in its Green New Deal approach.

- There should be a cross-cutting, locally-led **coastal industrial strategy – a Blue New Deal – and targeted public investment** to build the capabilities of places, people and communities on the coast.⁴²
- Healthier and more productive coastal and marine ecosystems should go hand-in-hand with an end to the privatisation of fishing. With post-Brexit fishing quotas, **a much greater share of the right to fish must be given to small scale and low-impact fishers**, and to support the vibrancy of the UK’s coastal economies.⁴³



EASTBOURNE FISHERS SECURE THEIR HARBOUR

Graham Doswell is a third-generation fisherman from Eastbourne. In 2013, the fishers were told to move their fishing gear off the land in Eastbourne where they had been fishing for 25 years. When they asked why, they learned that the area was slated for redevelopment. “We had a meeting and decided to try and fight,” says Doswell.

The 72 fishermen who comprise the fleet of Eastbourne formed a Community Interest Company in 2013 to launch a rival bid to purchase the quay. With support from the New Economics Foundation, and after a long battle, the fishermen have secured the right to stay on the harbour and funding to build new infrastructure.

They won £1 million in October 2017 from the European Maritime Fisheries

Fund, which runs until 2020, to build a fish processing unit on the quayside. The processing unit will give the fishermen the space and the kit to harvest their own fish, rather than relying on wholesalers, which should boost their income. In time, the fishermen hope to establish better links with their community and local markets.

In the coming years, UK fishing communities will only thrive if smaller and lower-impact boats are given a greater share of national fishing quota. As small boats are more likely to fish sustainably, and the incomes earned by local fishers more likely to be spent in the immediate economy, it is essential that fisheries policy and economic development favours fishers such as those in Eastbourne.

- A locally-led **industrial strategy for rural communities** is also needed to ensure that the process of change – including whatever happens to farm subsidy regimes – is managed fairly as part of a Green New Deal.

SCRAP HEATHROW EXPANSION

Expanding Heathrow means the airport will become the biggest source of carbon emissions in the country. Yet the benefits of aviation are very inequitably distributed, with just 15% of the UK population taking 70% of all flights.⁴⁴

- Parliament must be given an opportunity to **reassess Heathrow expansion in light of net zero targets, the CCC’s recent letter to the Transport Secretary and new evidence on its economic and carbon impact. It should be scrapped.**⁴⁵
- As well as rejecting expansion plans, **NEF calls on the government to scrap air passenger duty and implement a Frequent Flyer Levy, in which everyone has a right to one, tax-free return flight per year, but charges rise steeply thereafter.**⁴⁶

3. RESTORE NATURE

The UK already has legally binding climate change obligations, but these must be extended to cover a range of ecological boundaries. This is not only important because of human impact on ecosystems now, including the loss of species, but also because the battle to reduce carbon emissions must not be won at the expense of biodiversity or resources.

BOOST NATURE’S ROLE IN THE BATTLE AGAINST CLIMATE CHANGE

The Committee on Climate Change argues that the UK needs to plant up to 3 billion more trees to achieve net zero by 2050. If we are to achieve net zero sooner, then tree planting must begin immediately and be expanded to cover the protection of peat bogs and the expansion of saltmarshes, seagrasses, kelp and shellfish beds, which are all also very efficient ecosystems in the carbon storage cycle.

- While central government would be responsible for ensuring that the pace and extent of tree, coastal and marine planting is sufficient to meet the Green New Deal’s overall target, **the effort to identify land and coastal areas to create new forests and important ecological zones should also be located as a duty within the new combined authorities.** This would best be established as part of their regional industrial strategies to ensure that opportunities to create new jobs and to involve communities, unions and other stakeholders were built into the reforestation effort.
- UK peat bogs are of international importance, comprising of up to 15% of Europe’s peatland and 13% of the world’s blanket bog.⁴⁷ They are the UK’s biggest carbon store, help reduce flooding and purify drinking water. Yet the degraded condition of the UK’s peatland means it emits 23.3 million tonnes of greenhouse gases into the atmosphere every year.⁴⁸ **To help both climate mitigation and adaptation, the government should undertake an ambitious programme of habitat restoration and outlaw the practice of burning grouse moors.**