This report presents the case for reform of Britain’s main economic and financial ministry, as a crucial part of delivering a UK Green New Deal in government. It argues that trust in government has decayed, and that the Treasury’s own commitment to flawed metrics and a narrow focus on financial sustainability has contributed materially to this. The Green New Deal, interpreted here principally as the need to implement a rapid programme of decarbonisation that is socially just, could be the opportunity to restore that lost faith in government. Indeed this report argues that a transition may well be difficult to achieve on any other basis and that the Treasury itself must now take a lead in its delivery.

1— Delivering a Green New Deal in government

We should start with the big picture. A net-zero carbon target of 2050 is not enough for the UK, given the legacy of our historic emissions and the desire to establish this country as an international leader in decarbonisation (and environmental policy more generally). We will need a tighter target, and a plan devised on the basis of best available scientific advice on how to get us there. To achieve this, we will need a society-wide mobilisation, changing how we work and live. Government action at the top will need to be met by initiatives from below. This, in turn, will only be possible on the basis of popular consent.

But as the decade since the financial crisis has demonstrated only too well, our institutions do not have popular consent. Trust in government is low, particularly trust in senior civil servants, and even the long-established metrics of economic success, like GDP, are losing their appeal. It’s not too hard to understand why this happened: for at least a decade, assurances from those experts centred on the claim that there would be, in the unfortunate phrase, “no return to boom and bust”. When the bust happened in 2007–8, it shattered that belief; when “normal” times failed to return, real wages failing to recover as GDP was heckled by a woman at the back of the hall: “That’s your bloody GDP, not ours!” This attitude is completely understandable: the promise of GDP is shattered, in that it has risen (slowly) over the last decade – but wages have not.

This disintegration in legitimacy of the tools of government, however, is occurring at the same time – and is linked to – their crumbling as effective tools of economic management. To cope with the demands of climate change and environmental collapse more generally, it will not be enough to refer to GDP: a measure notoriously indifferent to environmental damage, of any sort. And to cope with the emerging data economy of near-zero marginal cost production and the shift away from traditional price mechanisms, it will not be enough to refer to GDP: a measure notoriously bad at accounting for unpriced production and consumption.

It is possible to imagine solutions to these issues that do not rely on consent. An authoritarian “solution” to environmental crisis can be plausibly imagined, imposed on society from on high. But for a government committed to creating a “radically fairer, radically more democratic” society, this is totally unacceptable – and, in any case, seems destined to fail, given the likelihood of societal blowback. The gilets jaunes are a standing rebuke to technocratic attempts to impose solutions to the environmental crisis without popular consent.

We should be in no doubt about the scale of the transformation needed to achieve the decarbonisation targets the Green New Deal is demanding. And this will only be achievable on an equitable basis, if it is achieved at
all: Since we know the top 10% (across all countries) are responsible for 45% of carbon emissions globally, the only programme that can be reasonably justified is one that places any economic costs of transition on the very broadest shoulders. A government committed to conventional economic metrics as its own measure of success will weight these considerations, and, by doing so, will undermine the conditions for the success of any future programme of environmental transformation.

Recreating the forms of consent for economic management, however, will require a deep shift in how government operates: not just a shift in policy, but a shift in institutions. It is not only that policy is not trusted, but the mechanisms of delivering policy and the aims of the policies themselves are not trusted sufficiently – and everything we know about the current development of the economy suggests the problem will only worsen from here on in. Other things being equal, environmental destruction will accelerate, and the digitisation of everyday life (through technologies like 5G and the Internet of Things) will deepen, weakening (in turn) the ability of any government, of any stripe, to secure consent.

The challenge for any radical government, then, will be in winning and maintaining new forms of consent for its programme. Much of this work will have to be done before an election but, assuming a majority can be secured, this new government will require a clear programme of action. That should include making the necessary changes to the machinery of government itself. It will govern departments learning to think and act in new ways. And, most of all, it will mean the department at the centre of economic policymaking dramatically shifting its own ways of thinking and working.

2 — The Treasury at the centre of Whitehall

The Treasury remains the single most powerful department inside the UK government. Its combination of economic policymaking, plus control of the governments’ purse-string, its historic relationships to key centres of economic power – most prominently in financial services – and, in the last two decades, its domination by two unusually powerful chancellors of the exchequer give it an exceptional weight inside the structures of government. As former head of the domestic civil service, Lord Kerslake, noted in his 2017 review of the Treasury’s functions, the role the department has played “in arbitrating and even initiating domestic policy” has lead to the Treasury taking on roles far beyond its notional remit, a process known colloquially in Whitehall as “Treasury control”. Austerity, pursued with single-minded purpose since 2010, has reinforced the Treasury’s dominance not only of economic strategy but, thanks to its tight controls over spending, wider economic policy.

This relates directly to the issue of consent. Although often seen as a purely technical department of state, with a narrow focus on the “hard” facts of the balancing books and setting department budgets, the Treasury has always been a deeply political arm of the state. The majority of Treasury staff are not economists or statisticians, and the Treasury’s share of the Government Economic Service headcount has fallen in the last two decades, even as government employment of economists has risen.1 Instead (and despite official disavowals, as we shall see), it takes a far broader and strategic view of government priorities as a whole. But this has a direct bearing on governance in general since weaknesses in that strategic oversight turn steadily into an accumulation of failures across government as a whole. That, as Kerslake noted, feeds back directly into an erosion of trust, within other government departments, for businesses and others dealing with government, and of course for the wider public.2

In contrast to some historic arguments from progressives, Kerslake did not come down in favour of breaking up the Treasury,3 or of establishing a new economic policymaking department in opposition to it. Rather, the Kerslake Review recognised the potential of a refocused economics and finance ministry able to deliver on the core economic objectives of government. This chapter seeks to build on his closely-argued conclusions and supports his belief that a single strategic focus for economic policymaking remains essential.

Delivering for the environment?

With this command across government, the Treasury should be ideally placed to help deliver on the all-encompassing social challenge of climate change. Dealing with climate change – both to decarbonise and to adapt to its consequences – will require a cross-government response. There is simply no other department with the powers and authority inside government should be able to set the strategic direction and the pace of change for the whole of government.

Yet, despite some initial moves under then-Chancellor Gordon Brown, most notably in publishing the pathbreaking Stern Review on the economics of climate change in 2006, the Treasury’s response to climate change (and indeed environmental and social challenges more generally) has been woeful. Some of this can be put down to the decisions made by is chancellors in recent years: and, in a democratic system, we should expect any government department to act in line with its ministers’ wishes. The line of accountability should, in theory, run from the minister back into parliament, and ministers and the government are ultimately held to account by general elections. It would be unreasonable to blame the Treasury for not prioritising climate change when the chancellors running it manifestly do not prioritise it, either.

But the difficulties arise when there are reasonable grounds to suppose that despite both Treasury commitment and official scientific advice, the Treasury has worked to other priorities. And where it has not worked to other priorities, it has consistently failed to utilise the potential it has to deliver on Britain’s commitments to decarbonisation and the environment more generally. A government seeking to make the transformational changes decarbonisation will require – to say nothing of the other necessary shifts to a more democratic and fairer economy that are a fundamental part of Labour’s programme – will also need to address the operations of the Treasury head-on.

In particular, once a Green New Deal programme moves beyond a relatively (excessively) relaxed net-zero carbon date of 2050 to a date closer to the present and more appropriate for the UK’s historic contribution and aspirations to global leadership, the challenges placed on government will be significant. Once that economic programme also includes the deep changes required to how we work, how we quantify economic success, and how we view the long-term goals of the economy, it becomes essential for the Treasury to think and act differently.

Given the constraints imposed on us by the work of the IPCC, we have limited time to act; but the time frame over which actions must be taken are longer than Whitehall – including the Treasury – is generally inclined to think about.4 Specifically, we need government departments able to begin actions now that may not bear full fruit until a decade or so in the future, beyond only longer-term investments in renewables and other key infrastructure.5 This is two full terms of parliament, so the implication is that we will need not only a clear focus by government departments on environmental objectives but a clear and compelling justification for holding to them through and beyond a standard electoral cycle. Building and maintaining consent over a whole decade of transformation will be impossible without that.

3 — Modest ambitions

Official thinking in the department, however, tends to the stereotype of the myopic short-term, and certainly away from objectives that lie outside the narrow confines of pure neoclassical economics, productivity and growth chief amongst them. John Kingman, former second permanent secretary at HMT, described the department’s primary role as “stopping bad things happening”, with economic objectives only a second-order
consideration. He meant, in other words, the exercise of a tight restraint on departmental spending decisions: unobjectionable, in itself, but problematic if the definition of “bad things” stretches too wide.

Elsewhere, Dan Corry, former special advisor to Gordon Brown during his time as chancellor, has suggested that the Treasury’s focus on growth and productivity was an improvement over its previously narrower fixation on the question of finance alone – ignoring, or at least downplaying, the very significant impact spending decisions have on the wider economy. He attributes this broadening of focus to the Treasury “responding to the wishes of its political masters”. At the very least, there should be no reason in principle why the Treasury cannot take a broader view of its own economic remit.

And whilst former permanent secretary, Sir Nicholas Macpherson, readily acknowledges that the Treasury is “much more strategic” today than it was in decades past, he has elsewhere defined those strategic goals in strikingly narrow terms: “The Treasury’s long term objectives are primarily around creating macroeconomic stability, supporting policies that improve the trend rate of growth of the economy and seeking to keep the public finances in a stable position.”

There are a number of striking things about this. This is a remit narrowly defined even by the standards of economic policy. For a department with a “licence to meddle” and an unerring ability to stick its nose into every part of the government’s business, it appears narrower still. There is nothing here directly about purpose – which, whatever we might think the economy should be doing in the short-term, would surely form part of a long-term aim for the economy. What, after all, do we want economic growth and macro-economic stability for?

These apparently modest ambitions are in sharp contrast to the views of expert witnesses summoned by the Environmental Audit Committee, who stressed what the EAC called the Treasury’s “unique position to promote coordination and policy coherence on environmental policy between and across government departments.” They stand in contrast, too, to the conclusions of the National Audit Office, who found that the Treasury, through the Spending Review process, had “an important opportunity... to encourage a coordinated approach to meeting environmental targets.” There is a real potential here for the department, in recognising its more strategic role, to define that role to include long-term environmental objectives.

4 — Treasury actions damaging environmental objectives

However, the department has persistently fallen short on the environment, where “stopping bad things happening” is the order of the day, and a combination of spending controls and (presumed) business objectives are enforced. The evidence from the last decade shows the Treasury repeatedly and consistently imposing its own priorities on decisions with environmental outcomes. It is, of course, difficult to reconstruct decision-making inside Whitehall, but from press reports and select committee and other evidence, significant examples can be demonstrated where it “rode roughshod” over other departmental objectives:

- During the original negotiations on carbon budgets, over 2008–9, all departments were required to draft a Carbon Plan and accept responsibility for emissions in the parts of the economy over which they had a remit and policy levers. The Treasury reportedly refused to accept any responsibility for any part of the economy, claiming it had no policy levers it could use.
- Osborne’s 2012 “dash for gas”, announcing the installation of up to 30 new gas-fired power stations to replace Britain’s ageing fleet, was condemned as “plan Z” by the chief executive of the government’s own advisory Committee on Climate Change.
- In March 2013, it was reported that Dave Ramsden, chief economist at the Treasury at the time, “killed off” a proposed interdepartmental committee on resource depletion and climate change. The proposed “Office of Resource Management” was supported across Whitehall, with the manufacturers’ trade body, the Engineering Employers Federation, backing the moves, citing growing concerns from manufacturers about access to raw materials.
- The old Department for Energy and Climate Change (DECC) placed a £1bn bid for capital funding of carbon capture and storage projects CCGTs into the 2015 Spending Review process, using competitive bids for projects. DECC figures showed a return of £4.50 for each pound invested to 2030, and £3.7bn “social benefits” to 2050. These were calculated on the basis of an additional £30bn cost to meeting climate change targets for 2050, given the increased expenditure that would be needed on more expensive renewable generation technologies.
- The zero carbon homes policy was cancelled in July 2015, apparently to “reduce[ing] net regulation on house-builders”. But this even ran against industry wishes, with many in the construction industry “surprised and even angry” by the move described as “devastating” by one expert select committee witness.
- The Climate Change Levy, introduced in 2001 to incentivise the use of renewable energy, was summarily abolished by then-Chancellor George Osborne in 2015, citing the cost-savings necessary under austerity. Yet in 2013 the tax advantages offered to oil and gas producers were extended to cover onshore shale gas production, at substantial cost to the Treasury itself. This bias in favour of minor adaptations to existing energy supplies has been cited as a prime example of departmental short-termism on the environment.
- In November 2016, ClientEarth, an environmental NGO, successfully sued the Department for Food, the Environment, and Rural Affairs (DEFRA) in the High Court for failing to follow a 2010 commitment to encourage a coordinated approach to meeting environmental targets. ClientEarth argued that DEFRA’s “unique position had not been used to coordinate efforts to reduce greenhouse gas emissions and stop the government spending decisions that would bring the UK into compliance with the law on air pollution as soon as possible. During the course of the hearing, it emerged that the Treasury had used the 2015 Spending Review to block DEFRA’s plans for an extensive network of clean air zones on cost grounds. The Environmental Audit Committee flagged this as a particularly egregious example of the Treasury’s strong bias towards short-termism.
- The Green Investment Bank, originally recommended by the Committee on Climate Change to meet Britain’s green infrastructure investment needs, was set up (without powers to create credit) in 2012 by the Conservative-Liberal Democrat Coalition government to promote private-sector environmental investment. With government seed funding of £3bn, it was expected by then-Business Secretary Vince Cable to leverage in £15bn of private sector investment. But after just three and a half years of operation, during which it funded 100 projects with £12bn of total investment, the government sold the whole operation to an Australian financial services group, Macquarie, with no guarantees about its future operation. This was described as “deeply regrettable” by the House of Commons Public Accounts Committee in early 2018.
- An earlier National Audit Office report found that the GIB had invested in 100 projects, attracting £2.50
of private financing for every £1 invested, but that the Treasury had insisted on a sale to the private sector on cost grounds only.11

5— Damaging the green economy

It should come as no surprise, given this pattern, that Lord Kerslake noted that many of the contributors to his review found the Treasury to be “arrogant, overbearing and negative” in its dealings with other departments.12 But aside from the wider point, Kerslake makes about the culture of the department, there is a specific concern here regarding its impact on what it sees as a core function of “supporting high growth firms”.13

Because the Treasury is so willing to intervene across departments, and to do so against their own objectives, it can act to undermine trust in government in general, since it is not possible to know if a seemingly solid commitment from one branch of government will not be overturned or undermined by the Treasury further down the line. The issue is critical to those looking to invest in longer-term and potentially riskier projects, as many renewable and decarbonisation investments will inevitably be. Successive governments from 2010 have had clear objectives favouring renewable investment and action on climate change.14 But Treasury behaviour has consistently worked against them.

The result is that investment in specifically renewable and low-carbon projects has been damaged. Ernst and Young’s “Renewable Energy Attractiveness Index” suggested that investors were “confused” by “inconsistent” government actions on support for renewables, driven by Treasury demands for short-term cost-cutting.15 WWF claimed that the “Treasury are actively seeking to undermine the renewables industry.”16 And most damning of all, the Environment and Energy Select Committee’s 2016 inquiry into “Investor confidence in the UK Energy Sector” found that investor confidence in renewables had fallen after the election of 2015, which they attributed in part to a lack of support from the Treasury. One offshore wind operator suggested that “Currently investors have little understanding on decisions being taken by HM Treasury which is contributing to investor uncertainty.”17 Bloomberg New Energy Finance figures show a shocking 56% decline in renewable investment in 2017, far bigger than any other country.18 Even on the Treasury’s own narrow terms, in which it sees one of its core missions as supporting “high-growth firms”, these actions are self-defeating. Placed in the wider context of climate change and the environment, they are disastrous. And this problem extends beyond specific government policy: as we have seen, governments have shifted, but the climate change commitments and the Treasury’s behaviour has remained remarkably consistent.

It isn’t beyond the wit of the department to act at least as a coordinator and support for new, high potential firms and sectors: for example, Charles Roxburgh, current second permanent secretary, notes the Treasury’s seemingly valuable co-ordinating role in supporting fintech, “where we have also worked very effectively between the Government and, in that case, small entrepreneurial businesses to help the UK become a world leader ... “.19 At least part of the issue (hinted at in Roxburgh’s answers to later Select Committee questions about the Green Investment Bank) is the desire to assume that new industries no longer require specific government support, and to move too quickly to a reliance on market mechanisms.20 But this short-term approach is exactly part of the problem here.

The slump in renewables investment is a direct instance of the lack of consent over government actions that we have framed this essay around. If government is not trusted, long-term challenges will not be met. The Treasury’s desire to chase short-term cost-savings here directly works against any long-term ambitions it might have to deliver towards environmental goals, even where the government has specifically set objectives (most notably in the carbon budgets) to achieve those goals. This does, in fact, beg the question: what does the Treasury itself see as its long-term aims?

6— The Treasury’s long-term plans

Any national ambition to tackle climate change and wider environmental degradation must involve longer-term thinking. The endemic short-term bias of both British private capitalism,21 and British government institutions,22 is well-known. But the Treasury does have long-term aims and objectives. Unfortunately, they are cramped and determinedly narrow-minded. Looking at the Treasury’s most recent departmental plan reinforces the point. Objective 2 seeks the “enabling” of “strong, sustainable and balanced growth”. “Sustainable growth” is then defined in paragraph 3.1:

Drive up the UK’s productivity through investment in all forms of infrastructure and through enhancement of the UK’s business environment and approach to supporting high growth firms, taking forward actions set out in the 2017 Autumn Budget and the Industrial Strategy White Paper

Deliver a programme of work to help the UK become a leader in the development and adoption of new technologies and encourage greater private investment and research

Take advantage of opportunities and minimise risks from EU exit, supporting the UK’s negotiating position across a range of policy areas including energy, environment, migration and competition policy

This absolutely could not be more clear about the lack of priority given to the environment. The reference to “sustainable growth” should not be misread: it’s not about the environment, but a reference to something closer to Macpherson’s claims, seen earlier, about the “trend rate growth”; growth is “sustainable” in Treasury terms, not when it can happen without damaging the environment, but when it happens as a result of raising that presumed underlying rate of growth of the economy. This is why the stress on productivity appears so early on: the underlying assumption, in line with economic theory, is that increases in productivity growth will lead to increases in the trend rate of growth, and therefore make any headline growth increases “achievable”.

The “unsustainable” alternative, in Treasury terms, would be to deliver headline growth that was, in fact, nothing but a bubble, which subsequently bursts. The classic example of this might be Tony Blair’s late 1980s bubble when a combination of major tax cuts and interest rate cuts delivered very rapid growth for a few years that soon turned into the recession of the early 1990s. Or the so-called “Barber Boom”, when Tony Chancellor Antony Barber cut taxes and raised public spending to promote growth in the early 1970s, producing rapid growth for a few years before running hard into rising inflation.23

These are clear and simple examples of the kind of macroeconomic mismanagement the Treasury’s own rules are set up to avoid, and few could reasonably disagree with them. But once we look beyond the very short-term issues of macroeconomic management – issues, it should be noted, that have largely been left to the independent Bank of England since 1997 – that problems arise. It was the Treasury, in conjunction with the newly-created Financial Services Authority (FSA) and the newly-independent Bank of England, that managed to preside over the spectacular inflation of a debt bubble during the 2000s, in the belief that this was essentially nothing to worry about. The period since the bursting of that bubble has resulted in some self-reflection from senior figures, but, in the spirit of the Bourbons (who “forgot nothing, and learned nothing”) the department has rather reverted to type, prioritising short-term spending cuts to the detriment of the government’s other long-term social goals, as we have seen above.

As the House of Commons Environmental Audit Committee put it, with considerable understatement, it is “not clear whether the Treasury’s use of the term sustainability aligns with the concept of sustainable development.”
In practice, as we have seen, the Treasury’s own concept of “sustainability” can work hard against the more usual understanding of the term, by acting to block longer-term environmental investments, and support for new, green industries. Moreover, much as an excessive focus on short-term “macro-economic stability” actually discouraged the Treasury from taking a clear-eyed view of the debt bubble of the 2000s – all the short-term indicators like GDP or unemployment were good, after all – there is a significant danger that by failing to recognise the economic impacts of climate change and the environment, the Treasury is simply storing up long-term problems for later.

**Recommendation 1:** The Treasury should adopt a new departmental plan that includes a definition of sustainability in line with the objective of decarbonising the economy in a just and equitable fashion, and reducing the environmental impact of economic activity more generally.

**7— Missing opportunities**

The tragedy here is that none of this is inevitable. The issue is obviously not one of competence – the Treasury’s staff are universally recognised as smart and dedicated. Nor is it about some malign conspiracy at the heart of the civil service to undermine action on the environment. As current governor of the Bank of England, to the point that the sustainable finance industry body has called the Treasury a “laggard”. The Bank has identified “climate risk” as a threat to financial stability, with insurers perhaps the most obviously affected by greater weather instability. But there are less obvious risks associated with climate change, too, such as the problem of heavy investments in carbon-intensive assets that can no longer be used, and the volatility it introduces to commodity prices as harvests become more uncertain. Climate change claimed its first bankruptcy last year, as the board of California energy giant, PG&E, assessing the $30bn liabilities it faced from wildfires over the previous two years, realised it was no longer a going concern. There will almost certainly be many, many more to follow.

So a broader view of financial stability, in the light of climate change, is obviously desirable, and the Bank of England should be commended for setting a lead on the issue. Even with the wider social dimension of the consequences of climate change and wider environmental destruction, the Treasury should shift its thinking. But the shift needs to involve more than just a passive adaptation to circumstances. As current governor of the Bank of England, Mark Carney, has argued, “risks from climate change will ultimately be minimised if the transition to a low-carbon economy begins early and follows a predictable path.” The Treasury must begin to follow suit. As argued by GFC Economics’ recent report, this should involve closer collaboration between the fiscal and monetary authorities in delivering core government objectives.

**Recommendation 2:** The Treasury and Bank of England should agree a charter at the earliest possible opportunity, specifying the shared objectives of government policy in the context of a ten year programme to implement a Green New Deal.

**Recommendation 3:** The Treasury should add the economic risks from climate change and wider environmental degradation to its departmental risk register, and maintain an ongoing assessment of future risks.

The Office for Budget Responsibility currently produces long-range forecasts for the government fiscal position. Running over the next few decades, these obviously should not be considered forecasts in the conventional sense, but rather as guides to future issues and challenges for the government’s finances. At present, these focus closely on demographic change, looking particularly at the impact of a growing population on demand for healthcare and pension spending. Labour policy, announced by Shadow Chancellor John McDonnell in November 2017, is to expand the OBR’s remit to also include the fiscal consequences of climate change and environmental damage, which are likely to be severe. Research by the Worldwide Fund for Nature (WWF) suggests that, if an unmitigated rise in global temperatures to 4 degrees by 2100 occurs, the simple cost to GDP implied by CGE modelling, “meeting the reduction in greenhouse gas emissions set out in the first four carbon budgets” lead to a net 1.1% increase in GDP by 2030, the creation of an additional 190,000 jobs and higher real disposable incomes (£565 per household per year). Government revenue would be improved by £5.7bn by 2030, on this forecast.

The point here is not to recommend one modelling technique or another – simply to indicate that no single economic model can be appropriate for the consideration of a complex and society-wide programme for decarbonisation and environmental transformation of the economy. The Treasury (and government economics in general) must become more open to alternative approaches, and develop sensible analytical techniques for policymaking on the basis of multiple modelling procedures and mixed methodologies.

**Recommendation 4:** The Treasury and other economics-focused ministries must...
seek to develop a deeper capacity in environmental and ecological economics, promoting pluralism in modelling, and actively seeking to recruit, train, and develop capacity in-house. The Government Economics Service Fast Stream and other recruitment criteria, and other continuous professional development should be widened to cope.

9 — The Green Book

The claim to superior evidence, on the basis of seemingly rigorous economics, is a key mechanism for Treasury control. As Christine Berry says, “evidence-based policy has become nothing more than a vehicle through which economic modelling has acquired a near monopoly on what counts as ‘evidence’.” Smuggling in hugely significant value judgements in the guise of objective analysis. This applies particularly to dealing with the assessment of environmental goals, where objectives are frequently hard to assess against monetary costs or benefits, and where techniques used to provide such assessments are themselves of questionable merit.

The “Green Book” is the Treasury’s own guide to spending decisions on “policies, programmes and projects.” Its aims, as described by Tom Scholar, current Permanent Secretary, are to provide “guidance to help officials develop transparent, objective, evidence-based appraisal and evaluation of proposals to inform decision making.” The latest update, the first full revision since 2003, builds on a partial amendment in 2011 in allowing a wider range of criteria to be brought in when making assessments of projects and other proposed items of expenditure. In addition to the standard cost-benefit analysis, the Green Book now also allows consideration of “non-market impacts” for subjective wellbeing and environmental goods, where there is robust evidence available.

However, desirable as this expansion of permissible criteria may be, the Green Book still insists that market prices should be used as far as possible. As Diane Coyle and Mari-anne Sensier note, this focus on market prices gives rise to a “Matthew Effect”, whereby “to him that has more shall be given”: since existing market prices are formed on the basis of existing economic activity, judging the results of planned interventions by market prices alone will strongly bias decisions towards what already exists. For example, if transport investment is judged by the willingness of people to pay for improved transport, this will be biased towards those with more capacity to pay. Decision-making then becomes a series of self-fulfilling prophecies, with investment decisions automatically bent towards those places where prior investment decisions had already produced an impact.

Coyle and Sensier describe how this biases the Treasury against investment in projects outside of already successful areas, notably London and the South-East, and the regional bias of public investment is strikingly bad in the UK. But the same problem applies to any project that seeks to reshape economic possibilities, since – of necessity – those possibilities will be above and beyond what already exists, and (ideally) will be seeking to make more than simply marginal adjustments around what already exists. As former head of the civil service, Gus O’Donnell, has noted elsewhere, “Cost benefit analysis that uses market prices effectively endorses the status quo distribution of income”, to which we would add “and path of development.” A transformative Labour government, seeking to both shift the balance of power and wealth in favour of the rest of the country, and to decarbonise the economy, should treat the redraft of the Green Book to reflect this as a priority.

It is beyond the scope of this chapter to make specific proposals on the rewrite, but the form of appraisal suggested by Coyle and Sensier a backwards-looking, wider local and sector-specific knowledge, appraising against broader social standards, and making more details use of clear, mixed-methods analysis for large scale interventions all look appropriate. Existing Green Book rules will still largely apply for smaller-scale investments, but where the intention is to help deliver a transformative project – and, in particular, where a series of investment projects are likely to need to be enacted sequentially to deliver decarbonisation – the Green Book will need a significant overhaul. Work on preparing the ground could usefully begin now.

Recommendation 5: that the Green Book guidance for investment in projects is redrafted in light of the need to meet tight decarbonisation and other targets, requiring a broader assessment of social and environmental impacts.

The Labour Party should open an immediate expert-led review of the current Green Book, looking to make recommendations on improving the existing text in light of the needs of rapid, socially-just decarbonisation and minimising environmental damage.

10 — Discount rates

There are, however, deeper issues opened up if we are serious about broadening the basis for economic decision-making. The most fundamental of these is in the assessment of policies whose impacts will either only appear late, or whose impacts may only appear after a significant period of time. The conventional means to consider this is to apply a discount rate to benefits arriving in the future, with those benefits further in the future considered to be worth less than those closer to the present. This is intended to reflect both the innate uncertainty of future events (we cannot know for certain whether a planned event will occur, or if we ourselves will be there to enjoy it, or who else will be); and, more questionably, the expectation that future generations will be richer than ours, and therefore their enjoyment from benefits (considered in the form of more income) will be lower than ours. The use of this discounting procedure is fundamental to the type of cost-benefit analysis the Green Book (and government decision-making more generally) embodies. At present, government guidance assumed a 1.5% discount per year for “pure” time discount, and 2% per year for the assumed reduction in marginal utility of income. The lower the discount rate, the more important the future will be in our decision-making today.

However, it has been subject to powerful challenges from environmental economists, perhaps most strikingly in the 2006 Stern Review of the Economics of Climate Change, referenced earlier. Nicholas Stern and his team presented a first-principles argument that the correct social discount rate to consider when approaching the costs of climate change and climate change mitigation, given the very long-term and plausibly catastrophically high costs of climate change, is very close to zero. A lower discount rate means that action taken today to combat climate change is more likely to pass a cost-benefit analysis test. As the NAO report on sustainability found, “aspects of HM Treasury’s methodological approach to evaluating the relative merits of bids during the spending review favoured projects that deliver benefits in the short-term rather than the long-term.” This problem appears most strikingly in the estimate (included in the “pure” time preference) of “catastrophic risk”, by which the Green Book means “unknowable risks not normally included in appraisal”: in other words, an allowance for unexpected and unpredictable events, like natural disasters or technological change. The Green Book sets this at 1% (of the total 1.5% for “pure” time preference). The Stern Review proposed a value for this component of 0.1%, reflecting the catastrophic potential of climate change – a very low discount rate to reflect the actual risk of the end of meaningful human civilisation. The Green Book sets its value ten times higher, based not on a methodical assessment of future risks, but, bizarrely, on the death rate in the United Kingdom in 1981. This is obviously a backwards-looking measure, and, more to the point, cannot under any circumstances be considered a plausible estimate of catastrophic or systemic future risks from environmental collapse. Treasury notes claim the Green Book estimate “harmonises” the Stern Review with existing estimates; in reality, it does no such thing.
Additionally, Gus O’Donnell and his co-authors have argued that where we want to take a broader view of impacts, beyond the merely monetary and into considering broader wellbeing, it is very difficult to present an argument that the marginal utility of such impacts declines over time. This, in turn, suggests a lower discount rate is more appropriate when considering broader measurements of welfare than the purely fiscal.

Finally, there is the long-term consideration of the expected rate of growth of consumption. As we have noted earlier, there are three major considerations, post-2008, that have affected GDP: first, that an increasing volume of economic activity is occurring outside of conventional markets (such as digital content production) and cannot easily be measured; second, the serious risk that growth in the major advanced economies has been permanently reduced (often referred to as “secular stagnation”); third, that GDP itself is losing its prominence as a desirable proxy for welfare. By biasing the measurement of GDP downwards, all of this would be missed.

We believe that the marginal utility of such impacts, without breaching environmental limits, is a “nut”, with economies ideally falling in the ring attractive popularisation of this concept in the UK. It is for this reason that single, subjective wellbeing measures, have been criticised, broadly for two reasons: first, that a complex indicator like wellbeing is hard to interpret in a way that (for example) real wages or unemployment are not; second, that the relationship between policy and aggregate wellbeing outcome is not always clear, and data produced only with a lag; and third, the subjective wellbeing especially is subject to the problem of adaptive expectations, in which people asked to report on their own perceived wellbeing adapt rapidly to their circumstances. It is for this reason that single, aggregate wellbeing measures, sometimes proposed as alternatives to GDP (Bhutan’s “Gross National Happiness”, for example) are generally rejected in favour of a dashboard of indicators.

Critically, the relationship between personal wellbeing and environmental damage is not always clear: it is entirely possible for one to be maximised, even across a whole population, whilst doing immense damage to the environment. Clearly this situation is unlikely to be sustained for any length of time, but the issue we collectively face is more like one of constrained optimisation: maximising wellbeing given some environmental constraints. Kate Raworth has presented an attractive popularisation of this concept in her Doughnut Economics, and her “doughnut”, with economies ideally falling in the ring between achieving some baseline wellbeing without breaching environmental limits, is a neat graphic metaphor.

Nonetheless, with the growing uncertainty of GDP measurement, the desire amongst the public to see government respond to real needs, and – critically – the need to win legitimacy for a long-term programme of economic transformation all strongly point towards adopting a far broader set of metrics of economic progress. IPPR and NEF have both recently made proposals on broadening our indicators of progress, whilst ONS have already begun publishing wider economic indicators, but shifting the focus will require political direction.

Recommendation 7: a broader suite of measures of economic progress should be placed front-and-centre of economic policymaking, with Treasury taking the lead in the reporting and disseminating the new approach. GDP can retain its function as a broad measure of economic output but should be considered downgraded in policymaking.

12 — Coordination and leadership across government
Repeatedly, the evidence examined here shows the Treasury persistently failing to rise to its potential as a coordinating department for environmental economic policy.

“Its role at the centre of government puts the Treasury in a unique position to promote coordination and policy coherence on environmental policy between and across government departments.”

Recommendation 8: we follow the National Audit Office in recommending a broadening of the bilateral (Treasury-to-department) Spending Review process to include cross-government groups on key environmental objective

– for example, focusing on biodiversity loss, or on meeting departmental carbon budgets. The Treasury should take the lead in facilitating the creation of themed groups on key environmental objectives as soon as possible in the Spending Review process. The new post of Treasury minister for environmental economics should take ownership of the negotiations, with support from the Chief Secretary.

We would expect a future Labour government, in addition, to appoint a full complement of special advisors through the Council of Economic Advisers, following the model of Gordon Brown’s Chancellorship.

13 — An example to watch: New Zealand’s new approach
It’s entirely possible for a finance and economics ministry to take a different approach to that of the UK Treasury. New Zealand’s Treasury, a direct equivalent to HMT in a comparable Parliamentary system, published its “Living Standards Framework” (LSF) in December 2018. This contains a broad range of “wellbeing indicators”, including “cultural identity, environment, housing, income and consumption, and social connections”, intended to guide policy. The approach and the framing are not new – David Cameron, for instance, was an early enthusiast for a “wellbeing” approach to economic policy. But New Zealand is the “first western country to design its budget around wellbeing priorities”. Published at the end of May 2019, this first “wellbeing budget” delivered significant increases in mental health funding and offered an assessment of its measures against the Living Standards Framework.

More significantly, however, was the transformation in the Treasury’s own Budget-setting processes. The (familiar) spending rounds in which departments bid for their own funding, using narrow departmental priorities, before entering into a negotiation with the Treasury assessing against value-for-money and narrowly defined economic objectives were overhauled. In their place, assessment throughout the Budget process was made against the wellbeing indicators in the Livings Standards Framework, with committees of departments at Cabinet level
working on priority areas inside the LSF. The result has been to encourage cross-departmental collaboration with many programmes in the Budget the “result of new, collaborative approaches.” The intention on the part of the Treasury and the New Zealand government is to embed the approach over coming years, with an explicit wellbeing-based impact assessment built into next year’s budget round.

This exposes some of the limitations of the wellbeing approach under circumstances where environmental degradation has to be considered an urgent national and global priority. In the New Zealand case, whilst the environment forms a part of the approach, it is only one of a number of different wellbeing indicators – rather than a priority in its own right, or, more fundamentally, a meaningful constraint on action. And whilst some attempts have been made to combine wellbeing measures with environmental measures, these have not resolved the fundamental lack of relationship (or even potential contradiction) between the two. However, as part of a reconsideration of the purpose of the Treasury, and as part of the effort to develop a legitimacy for government intervention on the economy, over a significant period of time, the bold approach of the New Zealand government warrants close attention.

Recommendation 10: that progress of New Zealand’s wellbeing budgets are monitored over the next few years with a view to incorporating lessons and best-practice into UK budget making.

Footnotes
1 James Pickard. (6 June 2019), “UK net zero emissions target will ‘cost more than £1tn’”, Financial Times.
2 See also the argument presented in Martin Craig. (November 2016), “Tresury/Wy Control’ and the British environmental state”, Speri Paper 24, Sheffield Political Economy Research Institute.
4 Edelman (2019), 2019 Trust Barometer: global report, London: Edelman, p.6 shows the UK has far lower levels of trust in government than other major economies.
5 The Institute for Government finds that trust in “senior civil servants”, in particular, is barely above trust in politicians, with only 21% of people trusting them to tell the truth. Freeguard, G. (5 Feb 2015), “Public trust in public servants – in six graphs”, Institute for Government blog.
6 Chakraborty, A. (10 January 2017), “One blunt heckler has revealed just how much the UK economy is failing us”, Guardian.
9 Alternatively, solutions may be offered that seek to deliver authoritarianism with popular consent, as in the steady emergence of “environmental nationalism”. The far-right National Rally, the old National Front rebranded, has a localist environmental policy platform, whilst its youth spokesperson claims “borders are the environment’s greatest ally”. Aronoff, K. (31 May 2019), “The European Far Right’s Environmental Turn”, Dissent.
11 Lord Keslake (February 2017), Rethinking the Treasury: Kerslake review of the Treasury, p.5.
14 Lord Keslake (February 2017), Rethinking the Treasury: Kerslake review of the Treasury, p.9.
16 As the Environmental Audit Select Committee noted, “Solving environmental problems and meeting environmental targets often requires sustained action over a long period, and/or large up-front, and sometimes expensive, investment with long payback periods.” House of Commons Environmental Audit Committee (17 November 2016), “Sustainability and HM Treasury”, Fifth Report of Session 2016-17, para.19.
17 Large scale energy projects typically have a long lead time, with the Aldersgate Group suggesting typically 8-10 years for construction of offshore wind and carbon capture and storage as an example. See Aldersgate Group (February 2016), written submission to the House of Commons Environmental Audit Select Committee Inquiry into “Sustainability and HM Treasury”, para.4.
18 Kingman, J. (21 October 2016), “Treasury and the supply side”, speech to the Strand Group. At:
21 Sir Nicholas Macpherson (13 January 2016), Oral evidence to Public Administration Select Committee, “Whistleblowing capacity to address future challenges”, Q245.
26 Anonymous civil servant reported in Friends of the Earth’s written evidence to the Environmental Audit Committee’s Sustainability and HM Treasury Enquiry.
is that we do not need to provide that financing to address a market failure. A mark of its success as having been successful at that early intervention, Q66 2018), Inquiry into Commons Treasury Select Committee (24 October 2018), Leadership for the long-term: Whitehall’s capacity to address future challenges, para 6: “There is long-term thinking in Government, but the evidence is that the short-term dominates...”


Coalition Agreement, 2010: “The Government believes that climate change is one of the gravest threats we face, and that urgent action at home and abroad is required. We need to use a wide range of levers to cut carbon emissions, decarbonise the economy and support the creation of new green jobs and technologies. We will implement a full programme of measures to fulfil our joint ambitions for jobs and technologies. We will implement a full programme of measures to fulfil our joint ambitions for jobs and technologies.


WWF (17 July 2012), “Treasury are undermining renewables industry”


Chairman, A. (February 2018), oral evidence to House of Commons Treasury Select Committee (24 October 2018), Inquiry into “Work of the Treasury”, HC 1668, Q66
...
...we would look on the Green Investment Bank as having been successful at that early intervention, to address a market failure. A mark of its success is that we do not need to provide that financing because the private sector has come in.”

Charles Roxburgh, oral evidence to House of Commons Treasury Select Committee (24 October 2018), Inquiry into “Work of the Treasury”, HC 1668, Q71


Industrial Strategy Commission (November 2017), Final Report of the Industrial Strategy Commission, ; see also House of Commons Public Administration Select Committee (15 March 2015), Leadership for the long-term: Whitehall’s capacity to address future challenges, para 6: “There is long-term thinking in Government, but the evidence is that the short-term dominates...”

BBC News (9 March 1999), “Budget blunders”

House of Commons Environmental Audit Committee (17 November 2016), “Sustainability and HM Treasury”, Fifth Report of Session 2016-17, para. 5


House of Commons Environmental Audit Committee (17 November 2018), “Sustainability and HM Treasury”, Fifth Report of Session 2016-17, para.16


Cambridge Econometrics (10 September 2014), The Economics of Climate Change Policy in the UK: An analysis of the impact of low-carbon policies on households, businesses and the macro-economy, Cambridge, p.3.

Cambridge Econometrics (10 September 2014), The Economics of Climate Change Policy in the UK: An analysis of the impact of low-carbon policies on households, businesses and the macro-economy, London: HMSO, p.9


Standard CBA depends critically on the assumption that any given project is marginal (ie does not affect the wider economic situation such as relative prices or the growth rate). This is fine for most, small-scale purposes, but cannot work where projects are specifically intended to affect the wider economic environment. Coyle, D. and Sensier, M. (July 2018), “The Imperial Treasury: appraisal methodology and regional economic performance in the UK”, Bennett Institute for Public Policy working paper no: 02/2018, p.16


Jeffrey, K.; Michaelson, J. (26 October 2015), Five headline indicators of national success: A clearer picture of how the UK is performing, London: New Economics Foundation

“Personal and economic well-being, UK: July to September 2018” (Feb 2019), Office of National Statistics https://www.ons.gov.uk/releases/econo- micwellbeingukjulytoseptember2018

House of Commons Environmental Audit Committee (17 November 2018), “Sustainability and HM Treasury”, Fifth Report of Session 2016-17, para.10

Grimes, A. (5 May 2019), “New Zealand’s well-be- ing approach to budget is not new, but could shift major issues”, The Conversation

New Zealand Treasury (May 2019), The Wellbeing Budget.

See, for example, the “Happy Planet Index” from the New Economics Foundation. NEF (2016), The Happy Planet Index 2016, London: New Economics Foundation.