

Written evidence submitted by Positive Money

Positive Money welcomes the opportunity to respond to the Environmental Audit Committee's Greening the post-Covid Recovery inquiry.

We are a non-profit research and campaigning organisation working towards reforming the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

Our submission makes the following key points:

- The government must prioritise social and environmental wellbeing indicators over GDP growth in the post-Covid recovery, and implement policies that reduce the economy's dependence on GDP growth.
- The policy response to the current crisis must differ in almost every respect - regarding inequality, bailouts, environment, and democratic accountability - to the response to the global financial crash of 2008.
- The Treasury and the Bank of England must urgently attach sustainability conditions to the bailouts provided to big corporations via their multi-billion Covid Corporate Financing Facility (CCFF).
- The government should implement a 'green' jobs guarantee that trains and employs workers in key sectors necessary for fostering human wellbeing within ecological limits.
- In order for the government to exert positive influence as host of COP26 and President of the G7 in 2021, the Treasury and the Bank of England must lead by example in the implementation of a fair and green recovery.

1. How can any fiscal and economic stimulus packages be aligned with the UK's ambitions on net-zero, biodiversity, the circular economy, and Sustainable Development Goals?

- 1.1. In order for the government's stimulus packages to be aligned with social and environmental goals, the government must reconsider the meaning and purpose of economic 'stimulus'. Currently, economic stimulus is generally understood as fiscal and monetary policy that causes production and consumption of goods and services - and GDP growth more broadly - to expand. However, there are serious limitations to what can be achieved by this approach to economic policymaking. The reality is that GDP growth frequently fails to increase life satisfaction, alleviate poverty, or protect the environment.¹ In many cases, the pursuit of growth at all costs is in fact counterproductive to achieving such goals. For example, in the

¹ <http://positivemoney.org/wp-content/uploads/2020/05/Positive-Money-Tragedy-of-Growth-Digital-Single-Pages.pdf>

UK and many other high-income countries, a 1% increase in GDP generates an equivalent increase in material footprint,² exerting a range of negative environmental pressures including biodiversity loss, soil depletion, and pollution of air, water and land.

- 1.2. Instead of seeking to ‘stimulate’ GDP, the government’s economic response to COVID-19 should target social and environmental indicators directly. The Office for National Statistics (ONS) already has a ‘National Wellbeing Dashboard’ that tracks a variety of indicators such as life satisfaction, access to key services, and greenhouse gas emissions.³ The Treasury should identify the highest priority wellbeing indicators within this dashboard, and target these specifically with its recovery packages. This process - as well as a review of the dashboard - should be guided by extensive public consultation and grounded in a coherent wellbeing framework.⁴ The Wellbeing Economy Governments alliance - Scotland, Wales, New Zealand and Iceland - are leading the way on incorporating wellbeing indicators into their economic policymaking.⁵ Finally, the city of Amsterdam has adopted Kate Raworth’s ‘Doughnut’ economic model to guide its recovery, seeking to satisfy human needs within planetary boundaries.⁶ Polling commissioned by Positive Money shows public support for a recovery centred on wellbeing, as 6 in 10 Britons want the government to prioritise social and environmental outcomes over economic growth once the pandemic has subsided.⁷
- 1.3. The COVID-19 crisis has shown the extent to which the economy is dependent on GDP growth, and how this dependency can endanger public health and wellbeing.⁸ Within just a few weeks of economic slowdown - enforced by social distancing measures necessary to protect human life - the global economy collapsed, with all of its structural weaknesses exposed.⁹ A short-term reduction in GDP was an inevitable outcome of these protective measures, which had various positive side-effects on the environment, such as global emissions reductions temporarily reaching 17%.¹⁰ However, the hit to GDP has also generated rising unemployment¹¹ and intensified poverty.¹² Therefore, the current crisis has exposed our problematic relationship with GDP growth: in our current economic system, a lack of GDP growth generates financial, economic, and social crises, but a return to GDP growth would exacerbate climate and ecological breakdown and ultimately fall short on generating human wellbeing.
- 1.4. Achieving a recovery that protects public health and social and environmental wellbeing requires transitioning to an economy that does not depend on continuous GDP growth. Therefore, the replacement of GDP with alternative social and environmental indicators should be accompanied by transformational economic policies that reduce the economy’s dependence on GDP growth. For example, the expansion of universal basic services and forms of public or democratic ownership, provision of socially and environmentally useful work that is more evenly shared across the population, re-localisation of production and consumption, continuous minimisation of socio-economic inequalities, and structural changes to the ways in

² <https://www.pnas.org/content/112/20/6271>

³ <https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/measuresofnationalwellbeingdashboard/2018-04-25>

⁴ <http://positivemoney.org/wp-content/uploads/2020/05/Positive-Money-Tragedy-of-Growth-Digital-Single-Pages.pdf>

⁵ <https://wellbeingeconomy.org/wego>

⁶ <https://www.theguardian.com/world/2020/apr/08/amsterdam-doughnut-model-mend-post-coronavirus-economy>

⁷ <https://positivemoney.org/2020/05/new-polling-only-12-want-uk-to-prioritise-economic-growth-over-wellbeing/>

⁸ <https://www.opendemocracy.net/en/oureconomy/pandenomics-story-life-versus-growth/>

⁹ <https://positivemoney.org/2020/04/coronavirus-exposes-deep-rooted-problems-at-the-heart-of-our-economy/>

¹⁰ <https://www.nature.com/articles/s41558-020-0797-x>

¹¹ <https://www.theguardian.com/business/2020/jul/16/rising-unemployment-uk-hidden-problem-furlough-coronavirus>

¹² <https://www.ippr.org/files/2020-06/estimating-poverty-impacts-of-coronavirus.pdf>

which money is created, circulated, and destroyed.¹³ Such economic transformations would allow the UK to safely transition to an economic system that successfully meets human needs while reducing environmental pressures.

- 1.5. Crucially, the policies required to reduce dependence on economic growth and achieve positive social and environmental outcomes must not be designed so that they rely on market forces. While the government has engaged in relatively large-scale interventions, its policies have relied too heavily on cooperation from private players: the government relied on private banks to provide emergency loans to businesses, hoped landlords would show leniency toward renters, and called on private companies to maintain employment. This approach has evidently not been effective, given the multiple problems with emergency loan schemes,¹⁴ reported financial struggles of renters,¹⁵ and unemployment surging to 2.8 billion before the furlough scheme has even ended.¹⁶
- 1.6. The government must accept that it has a responsibility to directly provide for the public's basic human needs,¹⁷ and make sure all its recovery packages take this into account. Access to quality healthcare, social care, housing, sanitation, electricity, water, food, transport, education, broadband and a payments system (services that the government itself has deemed to be 'essential')¹⁸ should all be publicly guaranteed as they are necessary to satisfy basic human needs.¹⁹ In addition the government should establish a 'green' jobs guarantee programme that provides training and employment in the provision of these basic services. This should also include the new jobs that are necessary for environmental protection and a low-carbon energy transition.²⁰
- 1.7. Fears about rising government debt are misplaced.²¹ Currently, nominal yields on 2 and 5-year government bonds (and real yields on longer term debt) are negative: investors are paying to lend money to the government. This is partly due to the Bank of England backing government spending with 'monetary financing': creating new money to support increased government spending. The Bank of England was already doing so indirectly through 'Quantitative Easing' (QE): purchasing government bonds from non-bank financial institutions.²² As a result, the Bank currently owns approximately a third - £745bn - of the government's debt, alleviating any pressure to resolve those obligations. The Bank has also offered to extend the 'Ways and Means' facility, the government's 'overdraft' at the Bank.²³ Fears of high inflation are also misguided, as increased spending does not automatically generate inflation. In fact, deflation poses more of a risk, given the current economic outlook.²⁴

¹³ <http://positivemoney.org/wp-content/uploads/2020/05/Positive-Money-Tragedy-of-Growth-Digital-Single-Pages.pdf>

¹⁴ <https://www.bbc.co.uk/news/business-52043896>

¹⁵ <https://www.resolutionfoundation.org/app/uploads/2020/05/Coping-with-housing-costs-during-the-coronavirus-crisis.pdf>

¹⁶ <https://www.theguardian.com/business/2020/jun/16/uk-jobcentre-claimants-coronavirus-crisis-unemployment>

¹⁷ <https://www.opendemocracy.net/en/oureconomy/times-climate-breakdown-how-do-we-value-what-matters/>

¹⁸ <https://www.gov.uk/government/publications/coronavirus-covid-19-maintaining-educational-provision/guidance-for-schools-colleges-and-local-authorities-on-maintaining-educational-provision>

¹⁹ <https://neweconomics.org/2020/02/the-case-for-universal-basic-services>

²⁰ <https://www.tuc.org.uk/sites/default/files/2020-06/JobsguaranteeReport2.pdf>

²¹ <https://positivemoney.org/2020/06/government-debt-and-covid-19-why-theres-no-need-to-worry/>

²² <https://positivemoney.org/2020/04/the-ultimate-magic-money-tree-has-been-unveiled-dont-let-the-government-tell-you-otherwise/>

²³ <https://www.bankofengland.co.uk/news/2020/april/hmt-and-boe-announce-temporary-extension-to-ways-and-means-facility>

²⁴ <https://positivemoney.org/2020/05/why-covid-19-should-make-us-rethink-the-concept-of-inflation/>

2. How should the policy response to the current crisis differ from the response to the global financial crash in 2008?

2.1. The economic policy response to the global financial crash of 2008 was flawed in at least four ways:

- 2.1.1. First, monetary and fiscal policies implemented in response to the crisis increased economic inequality in the UK. Loose and unconventional monetary policy pushed up asset prices, expanding the wealth of the asset-rich,²⁵ while the government's austerity program weakened public services and exacerbated economic insecurity for lower income households.²⁶
- 2.1.2. Second, the government's bailouts to banks had no strings attached. These bailouts rescued the very financial system that was responsible for causing the crash and failed to fix any of its fundamental flaws. As a result, we still have a financial system that is dominated by a small number of profit-maximising banks that primarily serve the finance, insurance and real estate sectors rather than the real economy.²⁷
- 2.1.3. Third, monetary policy supported carbon-intensive economic activity, as the Bank of England's corporate QE programme was strongly biased towards high-carbon companies, purchasing bonds issued by Shell, BP, Total, and many other environmentally harmful firms.²⁸
- 2.1.4. Finally, the response to the last financial crisis deepened the democratic deficit in monetary and financial policymaking. Specifically, the Bank of England's mandate was extended to include financial stability. This expanded the remit and tools - and therefore the economic power - of the Bank of England, but corresponding accountability mechanisms to ensure democratic legitimacy at the Bank were never introduced.²⁹

2.2. Unfortunately, so far the economic policy response to the pandemic is repeating these mistakes in the following ways:

- 2.2.1. First, the fiscal response has deepened economic inequality, partly by prioritising the protection of banks' and landlords' income flows rather than decreasing the expenditures of low-income debtors and renters.³⁰ Figure 1 provides an illustration of the resulting unequal outcomes, showing how a greater number of lower income households reported decreases in savings due to COVID-19, while mid to high-income households reported increases in savings.³¹
- 2.2.2. Second, The Treasury and the Bank of England have provided over £20bn in cheap loans with no strings attached to the country's biggest corporations via the Covid Corporate Financing Facility (CCFF).³² A lack of conditions attached to these loans has allowed corporations benefiting from this scheme to pay out £11bn in dividends to shareholders and lay off close to 43,000 workers.³³
- 2.2.3. Third, the Treasury and the Bank of England's schemes are supporting environmentally harmful economic activity, contradicting their 'green recovery' pledges. For example, as of June 24, £10.3bn (56%) of the CCFF's outstanding loans were being held by companies in high-carbon industries, such as aviation, chemicals

²⁵ <https://positivemoney.org/2018/02/latest-wealth-data-shows-disproportionate-gains-rich-era-qe/>

²⁶ <https://blogs.lse.ac.uk/politicsandpolicy/debt-in-low-income-households-under-austerity/>

²⁷ <https://positivemoney.org/2018/06/how-has-bank-lending-fared-since-the-crisis/>

²⁸ https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2017/05/ClimateImpactQuantEasing_Matikainen-et-al-1.pdf

²⁹ <http://positivemoney.org/wp-content/uploads/2019/10/Positive-Money-Seeking-Legitimacy.pdf>

³⁰ https://www.ippr.org/files/2020-05/1589291707_who-wins-and-who-pays-may20.pdf

³¹ <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/august/monetary-policy-report-august-2020>

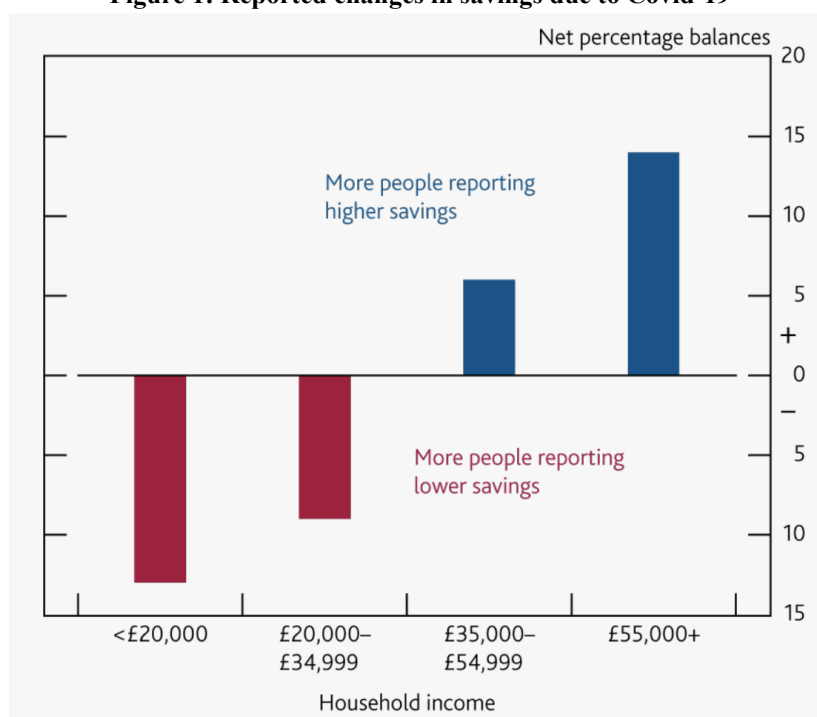
³² <http://positivemoney.org/wp-content/uploads/2020/07/CCFF-Final-version.pdf>

³³ https://www.vice.com/en_us/article/m7jxvn/corporations-receiving-bailout-billions-have-laid-off-staff-and-paid-investors

and oil and gas. Although just 19% of CCFF companies have disclosed accurate statistics for carbon emissions, energy, water and waste, and 6.9bn trees would need to be planted to sequester their reported carbon emissions for one year, there are no sustainability conditions attached to these bailouts.³⁴ Additionally, the Bank of England's expansion of corporate QE continues to support carbon-intensive companies,³⁵ and environmental experts assert that the Treasury's spending plans are not aligned with a green recovery.³⁶

- 2.2.4. Finally, the establishment of the CCFF represents a deepening of the democratic deficit at the Bank of England. Initially, the operations of this facility were entirely hidden from public view.³⁷ Following a Positive Money campaign, the Bank and the Treasury decided to publish the names of companies receiving public money via this scheme.³⁸ However, serious transparency issues remain. For example, the process by which bailout amounts - which vary between £20mn and £1bn - are decided upon remains unclear.

Figure 1: Reported changes in savings due to Covid-19



Source: Bank of England's August 2020 Monetary Policy report³⁹

- 2.3. Entering the recovery phase of the economic response to the pandemic, the Treasury and the Bank of England must change course and remedy the mistakes made so far:

- 2.3.1. First, they must ensure that their schemes reduce inequality. In order to achieve this, economic recovery packages should prioritise small businesses and low-income

³⁴ <http://positivemoney.org/wp-content/uploads/2020/07/CCFF-Final-version.pdf>

³⁵ <https://neweconomics.org/uploads/files/NEF-Decarbonise-BoE-report.pdf>

³⁶ <https://www.theguardian.com/environment/2020/jun/30/environmental-experts-dismayed-by-details-of-johnsons-new-deal>

³⁷ <https://positivemoney.org/2020/04/bank-of-england-provides-7-5-billion-in-big-business-bailouts-all-hidden-from-public-view/>

³⁸ <https://positivemoney.org/2020/05/press-release-govt-and-boe-comes-clean-on-corporate-bailouts/>

³⁹ <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/august/monetary-policy-report-august-2020>

households, and address the looming unemployment crisis as outlined further below in section 4.

- 2.3.2. Second, they should attach conditions to their bailouts, ensuring that public money benefits workers and the environment rather than senior executives and shareholders. Section 3 below outlines precisely what these conditions should be.
- 2.3.3. Third, they must ensure that ‘green’ considerations feature in all of their economic packages and operations. In order to meet climate commitments under the Paris Agreement, the government and the Bank of England cannot continue to not prop up environmentally harmful business models and sectors of the economy. They must instead support economic activities that are necessary to build an economy that meets the needs of everyone within ecological limits, as outlined in section 1 above.
- 2.3.4. Finally, they must ensure that the ongoing economic response to the pandemic is carried out in a way that resolves the legitimacy crisis at the Bank of England.⁴⁰ Specifically, the government must maximise the transparency of the CCFF, to ensure the public has full access to information regarding the use of public money. Positive Money’s [report](#) on the CCFF provides detailed recommendations on how such transparency can be achieved.⁴¹

3. What sustainability conditions should be attached to Government bailouts for high-carbon industries?

- 3.1. As outlined in sections 2.2.2 and 2.2.3, dozens of large corporations, including big polluters, have already received government bailouts via the CCFF with no sustainability conditions attached. Positive Money strongly recommends that these bailouts should have conditions requiring the presentation of credible⁴² net-zero carbon plans in line with the Paris Agreement. They should also be compelled to disclose climate risks - as recommended by the Task Force on Climate-related Financial Disclosures.⁴³ Finally, sustainability conditions on bailouts should not exclusively address climate impact, but also ecological impact. For example, chemicals giants BASF and Bayer have received £1bn and £600mn respectively via the CCFF. These companies dominate the pesticides industry and bear considerable responsibility for the collapse in insect populations that are crucial for the functioning of natural ecosystems.⁴⁴ Conditions should also require credible commitments to minimise such negative ecological impacts.
- 3.2. For particularly environmentally harmful companies, the government should consider taking equity in exchange for bailouts. Majority equity stakes in particular would allow the government to have significant influence in delivering a worker-led zero carbon transition in strategically important companies. In the most extreme cases, where business models are fundamentally incompatible with Paris Agreement goals, as is the case with oil and gas companies, the government should consider full-scale nationalisations in order to manage a just decline of these companies’ unsustainable operations.⁴⁵

⁴⁰ <http://positivemoney.org/wp-content/uploads/2019/10/Positive-Money-Seeking-Legitimacy.pdf>

⁴¹ <http://positivemoney.org/wp-content/uploads/2020/07/CCFF-Final-version.pdf>

⁴² A credible plan in this context refers to one that does not rely too heavily on controversial carbon offsets and technologies that are non-existent, untested, and uncosted. For example, EasyJet’s net-zero carbon plan is entirely composed of carbon offsetting in the short-term and research into unproven technologies in the long-run. Failure to acknowledge the limitations of such plans severely undermines their credibility.

⁴³ <https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf>

⁴⁴ http://www.foeeurope.org/sites/default/files/biodiversity/2020/insect_atlas.pdf

⁴⁵ <https://neweconomics.org/2020/04/bailouts-the-new-normal>

- 3.3. Finally, the Environmental Audit Committee should reflect on whether conditions attached to bailouts should also be progressively extended across the UK economy, especially in sectors that are crucial for achieving a zero carbon economy. While it's particularly important to ensure public funds are not used to enable environmentally destructive economic activity, regulation should not be limited to those companies receiving government support if being applied universally would be more appropriate and effective. Prior to the pandemic mandatory climate risk disclosure for UK companies was already being rolled out,⁴⁶ and robust arguments had been made in favour of the nationalisation of extractive industries.⁴⁷ The justification for these policies existed independent of the use of public money.

4. How can the economic recovery stimulus be used to deliver green jobs at a time of potentially high unemployment?

- 4.1. The best way to deliver 'green' jobs would be for the government to implement a 'green' jobs guarantee. Such a programme would offer public employment - including training where necessary - to anyone willing and able to work. The programme would focus on providing jobs necessary for the low-carbon transition, such as retrofitting of the UK housing stock, tree planting and nature restoration, and renewable energy projects. Universal basic services such as healthcare, education, and social care should also be considered 'green' jobs as they effectively meet human needs often with relatively little negative environmental impact.⁴⁸
- 4.2. The economic benefits and fiscal feasibility of a job guarantee programme have been outlined extensively by economists such as Pavlina Tcherneva.⁴⁹ The scheme would act as an 'automatic' macroeconomic stabiliser, as it would increase government spending into the economy during downturns (when spending is necessary) as people get laid off by the private sector, and would decrease spending when the private sector recovers and starts re-absorbing some of the workforce. In the context of recovering from the COVID-19 crisis, a green jobs guarantee offers the dual benefits of bringing down unemployment and keeping to the government's pledge of 'building back better' towards a fairer, greener and more resilient economy.⁵⁰

5. In the run up to Conferences of the Parties to UN conventions on climate change and biodiversity next year, how can the UK use its influence, as both host of COP26 and when holding the Presidency of the G7 in 2021, to influence the nature of economic rescue packages around the world?

- 5.1. The Treasury and the Bank of England's failure to lead by example in greening their activities risks seriously undermining the UK's efforts to show global leadership on climate through COP26 and the G7. The Treasury's inadequate spending plans, unconditional CCFF bailouts administered by the Bank of England, and the Bank's carbon-biased corporate QE programme all contradict commitments to a fair and green recovery. It will be difficult for the global community to take the UK's guidance on climate seriously if the institutions underpinning

⁴⁶ <https://www.ft.com/content/de915fb4-5f9e-11ea-b0ab-339c2307bcd4>

⁴⁷ <https://theintercept.com/2018/09/08/jeremy-corbyn-labour-climate-change/>

⁴⁸ <https://tcf.org/content/report/redefining-green-jobs-sustainable-economy/?session=1>

⁴⁹ <http://pavlina-tcherneva.net/the-case-for-a-job-guarantee/>

⁵⁰ <https://www.edie.net/news/9/Boris-Johnson-confirms-new-COP26-date--urges-nation-to-focus-on-green-recoveries/>

Britain's financial system and wider economy are still directing funds towards companies whose business models are incompatible with the Paris Agreement. In order to make the most of their opportunity to exert positive influence on other countries in 2021, the government and the Bank of England must rapidly change course and show genuine commitment to fostering human wellbeing within ecological limits.

August 2020