

## IT'S THE GREEN ECONOMY, STUPID



This will be my last newspaper column as a Member of Parliament. It is without nostalgia that I want to look at the mess we're in and how we get out of it. My parting speech in parliament's debate on the Budget followed the same theme; namely, that the consensus about public expenditure cuts has to be challenged if Britain is to avoid recreating the same conditions that took us into the original economic crisis.

The starting point is to remind ourselves that public service expenditure did not create the crisis. Everything originated from within the casino economy rather than the real economy. Huge numbers of 'advisors' from the City of London flooded into the Treasury to help produce the rescue plan that has saddled the country with so much debt. None of the advisors seemed remotely uneasy with

the idea that corporate welfare should be limitless whilst public welfare became an unaffordable burden.

I don't necessarily object to the idea that the government needed to inject £185 billion into the economy to counter the collapsing illusions the financial services sector had created. We simply chose the wrong way of doing so. Even the Treasury Select Committee are now saying the government missed a huge opportunity to break up the banking sector in the midst of this crisis. Even now, the government argues against sweeping reforms on the grounds that it would prefer international agreement rather than unilateral action. The City, of course, agrees. It is just interesting to note that when the crisis came, all the banks were interested in was unilateral action to keep them afloat.

Most of the public were understandably shocked when banks closed their doors as the economic crisis broke. People, who had only ever used banks as places to store and withdraw their own money, were horrified to discover the extent to which their deposits had been used to secure other people's gambling debts. When the government stepped in to guarantee everyone's savings, this was surely the moment to separate high-street banking from casino gambling. Some investment banks would certainly have had to go bust. If it had been in the national interest to acquire their original assets from the bankruptcy process, the government could have done so. Those who had been the most vociferous champions of deregulated markets would simply have been confronted by the limits of their own greed. Rampant capitalism requires failures. The City, however, demands that their own failures be passed on to someone else.

It always strikes me as perverse that the loss of 3,000 jobs in a car plant, a steel works, a pottery or in public services are described as unfortunate but unavoidable aspects of modern economics. At the same time the loss of 3,000 jobs amongst speculators is described as an economic catastrophe. We need a fundamental rethink about that the laws of economics mean in a modern, but sustainable, world.

My dad once explained to me that economics was not much more than a money-go-round. What you

have to understand is where the money gets on, where it gets off and who walks away with it. This is a useful starting point for understanding how we get out of the current crisis. The trouble with the £185 billion thrown at the banks is that very little of it has come back into the real economy. Mortgages have dried up, businesses can't get credit and those who can are facing interest rate charges of 15% or more. The Bank of England claims about near-zero interest rates are just unrecognisable within the real economy.

The economist, the late J.K. Galbraith, described this approach as horse and sparrow philosophy. It was the idea that you could feed both just by shovelling huge quantities of oats in to the mouth of the horse. Some of the oats would eventually pass straight through to feed the sparrow on the ground. Galbraith had the temerity to suggest that there were simpler ways of feeding the sparrow.

So it is with an economic recovery plan. It would be far better to push £185 billion worth of public spending commitments into the purchase of goods that would take Britain into a different future. A new national rail infrastructure, a national fleet of low carbon public service vehicles, the conversion of 5 million fuel poor homes into low energy ones, the delivery of decentralised energy systems - where towns and cities deliver their own secure (and sustainable) energy systems - all of these could have been paid for out of £185 billion of new spending.

Everyone who found themselves with a job, an apprenticeship, an improved home or an enhanced public service would have ended up putting their savings or wages into a bank. By turning the intervention strategy on its head, Labour could have already set off to build a different, post-crisis, economy from the one we are heading towards. The banks would have had money flowing into them... but only as a result of the economy being sent off in a different direction.

The problem for the government was that it involves re-engagement with the idea of economic interventionism. New Labour had lived in fear of the idea and hid, instead, behind the mantra that deregulated markets were the best drivers of innovation. This left Britain with the most short-termist economy in the western world. Long-term, strategic decisions all came a poor second to short-term profitability. We no longer had the sense to understand that a Keynesian approach to investing in ourselves offered a far more credible route out of the recession. We needed to look beyond our own shores for a more coherent approach to moving beyond the crisis.

A couple of years ago I brought a German MP, Herman Scheer, to talk to Labour ministers about Germany's Feed-in Tariff regime. It obliged energy companies to pay German citizens for clean energy generated from their homes and factories. This was a deeply embarrassing experience. Scheer was urbane, patient and polite. Labour ministers were largely disinterested. One Labour minister suggested to him that Germany was involved in no more than an interesting but expensive piece of social engineering. I can still picture the clarity of Herman Scheer's response.

Scheer pointed out that the average German citizen was then spending €3,500 on their annual energy consumption. This was a combination of their energy consumption at home and at work. It meant that the average Lander (a county area of around 1 million people) was spending €3.5 billion on its annual energy bills. Conventionally, most of this energy would have been bought from external sources - from third countries via multinational corporations. The radical shift in German thinking was to ask what would happen if they spent the same money on supplying their own energy rather than buying it from

outside.

Germany now has a renewable energy industry that has created 300,000 skilled jobs, with a turnover of €30 billion a year and a 15% slice of the global renewables market. The great secret, as Scheer confided, is that everyone employed in this process pays taxes into the German Exchequer. Most of these workers also buy goods and services within the Germany economy, paying VAT as well. The money-go-round simply works in favour of the German domestic economy rather than energy oligarchs or multinationals. Britain needs a similar recovery plan built around the economics of self interest.

Where we sit now is balanced perilously between a lurch back into the nightmare of a double dip recession and the possibility of a new (sustainable) industrial revolution. Last time around the Victorians built roads, canals, railways and sewers that were to last a hundred years beyond their time. It was also the era in which every town and city in the land formed their own (municipal) gas, water and electricity companies. These provided job security and energy security on the back of investments that were underpinned by government and municipal bonds.

Today, we are ten times richer but politically poorer. The trade union movement, as well as the Labour government, have lost sight of what would happen if we directed money differently in the economy. The budget threw the fig leaf of a green infrastructure bank towards the possibilities of radical transformation. It is a pittance of a gesture, relying on £1 billion to be raised from selling off public assets.

We could instead have required a large slice of the investments from RBS (the state bank) to be directed towards new green infrastructure. We could have said that the tax concessions, offered to the 19 million people who hold £175 billion of ISAs, should be conditional on the ISAs themselves going into ecological reconstruction. The Chancellor could have attached the same conditions to pension tax concessions. It all comes down to a question of whether the role of a Labour government is to manage capitalism or transform it.

I leave parliament doubting that the next government will have the courage to do this. I also leave parliament knowing that the biggest historical changes that have taken place in Britain have always occurred when society drove the change and parliament raced to keep up. As ever, the real power rests within our own hands... if only we have the courage to grasp it.