

Written evidence submitted by Green House Think-Tank

Summary

- The timescales used in Treasury policy-making are too short-term to equip it to deal effectively with sustainability issues, including climate change. In particular, its widespread use of discount rates amounts to systematic discrimination against future generations.
- The Treasury's overriding policy objective of long-run GDP growth is no longer appropriate in the context of increasing scientific knowledge about the planet's finite environmental capacities. Alternatives should be put in place - and the overarching goal of government policy should change from the pursuit of economic growth to the achievement of well-being within planetary limits.
- There is a need for systematic reform of the Treasury's processes and procedures, so that these help rather than hinder transition in the UK towards an ecologically sustainable economy.
- The UN Sustainable Development Goals apply internationally, including to the UK. The Treasury should draw up a programme of work to enable it to play a full part in their implementation.

Green House

1. Green House is a think-tank principally concerned with exploring ways of securing the full inclusion of ecological issues in political and economic debate and policy-making.
www.greenhousethinktank.org

The need for reform

2. The UK political system currently gives enormous power to the Treasury. Its relationship with other government departments is not that of equals. If the Treasury's attitudes, ethos, ideas, procedures, methodologies, and criteria do not favour sustainability and long-term resource-efficiency, it is unlikely that government as a whole will be able to promote and implement it. **There is therefore a need for the Prime Minister and the Cabinet as a whole to explicitly agree on a firm commitment to ecological sustainability, and then to trace through the implications for the Treasury, rather than simply maintaining a commitment at a formal or rhetorical level which Treasury processes then have the effect of undermining.**

3. A list of the Treasury's major powers over other government departments as they apply to Defra, DECC, and DfT is also a list of aspects of Treasury workings which will need to be reformed if there is to be an effective political commitment to sustainability as a guiding principle for government. This list includes: (i) the co-ordination and monitoring of public expenditure; (ii) the Green Book method of assessing major projects; (iii) environmental taxation; (iv) environmental financial institutions (e.g. Green Investment Bank); (v) the Cabinet Economic Affairs Committee (chaired by the Chancellor); and (vi) overall economic policy objectives .
4. An important underlying problem in all of these areas, and also in the Treasury's economic modelling and forecasting, is the question of timescales. Sustainability is inherently a long-term matter, concerning processes such as human-triggered climate change, biodiversity loss and ecosystem decline, which are major trends likely to continue to have an impact on future generations in addition to their current effects. However the Treasury's time horizon is typically linked to the business cycle and the electoral cycle, roughly 5 years. This is reflected in its economic modelling and in its choice of discount rates. HMT's current way of proceeding is clearly an inappropriate means of approaching decisions which are relevant to ecological sustainability, such as choices about energy generation and supply, the location of new housing, and the provision of transport infrastructure.
5. There is a particular problem in relation to discount rates. As the Stern Report argues, discount rates appear to depend upon an assumption that adverse effects in the future should be given less weight than adverse effects in the present. This is in our view unjustifiable. The only possible justification for this assumption is the belief that in the future we will be able to address adverse effects more easily. There is no longer any reason to believe that that's the case. It may well be that our descendants are no richer than us, or indeed poorer. We cannot justify the burden that is placed on them by our operating now according to a discount rate. **The use of discount rates in the Treasury Green Book should be phased out.**
6. **The Green Book procedure should also incorporate the question of risk**, so that cost-benefit analysis (CBA) is not based simply on quantifying the outcomes which are the most likely, but also considers the full range of possibilities and consequent risks to the environment, public health, international relations and resource availability. The Treasury should consider how to incorporate the Precautionary Principle into its work.
7. The role of the Treasury within the Cabinet Economic Affairs Committee is also an important issue, particularly when there are conflicts between the views taken by different departments. Many decisions about such conflicts go through the Cabinet write round process and to the Economic Affairs Committee. The Chancellor is the Chair. Although Cabinet Office is meant to find solutions in the event of disagreement, they don't normally

do this. Departments then just live with the HMT view. **Departments should be able to appeal to a Cabinet Committee with a specific remit for long-term environmental concerns.** This would include the PM, CO ministers, Defra, DECC ministers, and taking advice from Chief Scientists and the Committee on Climate Change.

8. Treasury officials are in many cases poorly informed about issues concerning ecological sustainability, and as a result can give the impression that they do not take these issues seriously. **There is an urgent need for training within the department, particularly in ecological economics.**

9. The Natural Capital Committee clearly has a role to play in increasing the availability of environmental information for the Treasury. This should be taken further by **adding to its remit a duty to provide policy advice**, which its terms of reference currently exclude it from doing. However it is also important to note that **the concept of “natural capital” is itself a constraint on how ecological questions are thought about, and it is important for the Treasury to engage with other perspectives.** The need to consider a range of perspectives beyond “natural capital” has recently been accepted by the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES, the so-called “IPCC for biodiversity”). [1]

10. There is a widespread failure within government to adopt a rigorous approach to defining “sustainability”, which is too often seen as a vague rhetorical term, as is “sustainable development”. **We urge Treasury officials to examine the analysis and quantification of “planetary boundaries” presented in the work of Johan Rockstrom and others.** [2] The Treasury should have a team that explores these issues, engages with the major points from natural science work in this field and considers their implications for the UK and world economy. The Chinese Government, for example, is exploring the concept of “an ecological civilisation” and is working hard with research institutes and others on developing these ideas. [3]

11. **Whenever the Treasury or OBR publish economic data and forecasts – most notably at Budget time – they should publish in the same documents and with the same prominence relevant sustainability data, and show how the long-term implications have been taken into account.**

12. The question of overall economic policy objectives is crucial. It is simply contradictory for one government department, Defra, to be officially pursuing sustainability and long-term efficiency, and for DECC to be similarly seeking to tackle dangerous climate change, whilst another, much more powerful department, the Treasury, gives overriding priority to GDP growth. The Treasury should reformulate its economic policy objectives in the light of quantified planetary boundaries. Although GDP is a useful measure in some ways, for example as a rough guide to changes in tax revenue and employment levels, it is completely unsuited as a measure of the success of a national economy in the context of a planet with limited environmental capacity. **The objective of increasing GDP should simply be**

discarded. Alternative economic, environmental, health and social indicators should be put in its place. [4]

13. 2015 saw two important developments in government responses to ecological sustainability matters internationally: the Paris Agreement on climate change and the adoption of the Sustainable Development Goals. We would like to see the EAC question Treasury ministers and officials on the subject of the ways (if any) in which these developments have been translated into programmes of work within the Treasury. The remainder of our evidence concerns the SDGs specifically.

Sustainable Development Goals

14. The SDGs are intended to apply to developing and developed countries alike. To date, however, the response of the UK Government to the SDGs seems to have been framed more in terms of international aid commitments rather than changes in domestic policy. The SDGs provide an opportunity for the UK to match its leadership role in international aid with a programme of actions focusing on how the SDGs will impact on development in the UK itself.

15. A number of the Goals are directly relevant to the UK: those on sustainable energy (SDG 7), sustainable consumption and production (SDG 12) and combating climate change (SDG 13). The world as a whole needs the developed countries to place a strong emphasis of these Goals if we are to relieve the pressures on our planet and its natural systems. SDG 8, on economic growth, contains targets that pose serious challenges to the current economic system and “business as usual” in the developed world. The Goal on inequality (SDG 10), which we may be used to seeing in the context of international development, poses the challenge of reducing inequality within individual countries, not only between the developed and the developing world. Within the SDGs there are a number of targets which have specific relevance to the UK, as set out below.

16. Targets 7.2 (“Increase substantially the share of renewable energy in the global energy mix by 2030”) and 7.3 (“Double the global rate of improvement in energy efficiency by 2030”) clearly require increased incentives to prioritise the take up of renewables over fossil fuel use. **The Treasury will need firstly to define what “substantially” should mean in the context of the UK in target 7.2 and then investigate what fiscal incentives and spending targets could be applied to achieve both this and 7.3.**

17. Target 8.4 is “Improve progressively through 2030 global resource efficiency in consumption and production, and endeavour to decouple economic growth from environmental degradation in accordance with the 10-year framework of programmes on sustainable consumption and production with developed countries taking the lead.” For

this to have the desired effect of reducing environmental degradation, economic activity will have to emphasise something other than traditional, resource-intensive GDP growth. The specific requirement for developed countries to take the lead on this means that the UK Government, if it is serious about its commitment to the SDGs, cannot shirk its responsibility here. **The Treasury should systematically examine possibilities for different patterns of economic activity that are less environmentally damaging than the current UK economy is.**

18. Target 10.4 - “Adopt policies especially fiscal, wage, and social protection policies and progressively achieve greater equality” - will require baseline data on current levels of inequality in the UK and evidence-based proposals for their reduction. **Studies from successful social protection measures in other countries should be used in planning policy changes and modelled before introduction, to avoid another mistake like the recent plan to cut tax credits.**

19. Achieving targets 12.1 - “Implement the 10-Year Framework of Programmes on sustainable consumption and production (10YFP), all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries” – and 12.6 - “Encourage companies, especially large and trans-national companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle” - also imply substantial changes in current UK practices and economic policies. These include the implication, of both of these targets, that a larger share of the responsibility should be borne by those countries that are richer and better resourced.

20. The recent floods have illustrated the relevance for the UK of targets 13.2 - “Integrate climate change measures into national policies, strategies, and planning” - and 13.3 - “Improve education, awareness raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction, and early warning.” As an example, **lessons learned from low-cost flood prevention measures such as those used around Pickering should be examined for their possible wider relevance. Evidence regarding the impact of public education programmes on reducing the negative effects of climate change needs to be gathered and fed into education policy and priorities for community-based programmes in order to ensure that wisdom is shared as widely as possible and individuals have the motivation to support – rather than undermine – the changes that are needed. The currently unhelpful role often played by the BBC should be examined in this context.**

21. The Sustainable Development Goals have extended the focus of development from simply a question of improving material living conditions in developing countries, to setting

out how everyone can achieve a decent standard of living in the long term, within our environmental limits. This means designing radical strategies for protecting resources and the environment on which we all depend, with developed countries being held up to the same level of scrutiny as developing countries were under the Millennium Development Goals.

NOTES

[1] Problematic issues concerning the concept of "natural capital" are discussed or referred to in the following:

'Scoping for the methodological assessment regarding diverse conceptualization of multiple values of nature and its benefits, including biodiversity and ecosystem services' (IPBES 2015).

http://www.ipbes.net/images/documents/plenary/fourth/working/4_9/IPBES-4-9_EN.pdf

Dario Kenner: 'Who Should Value Nature?' (Institute of Chartered Accountants of England & Wales 2014).

[https://www.icaew.com/~media/corporate/files/technical/sustainability/tecpln13444%20who%20should%20value%20nature%20web.ashx](https://www.icaew.com/~/media/corporate/files/technical/sustainability/tecpln13444%20who%20should%20value%20nature%20web.ashx)

Rupert Read & Molly Scott Cato: 'A price for everything?': The 'natural capital controversy', in *Journal of Human Rights and the Environment* Vol 5 Issue 2 (2014)

<http://www.elgaronline.com/view/journals/jhre/5-2/jhre.2014.03.03.xml>

Thomas Hahn: 'Six Degrees of Commodification' (Stockholm Resilience Centre website 2015).

<http://www.stockholmresilience.org/21/research/research-news/1-20-2016-six-degrees-of-commodification.html>

[2] Johan Rockstrom et al.: 'Planetary Boundaries: Exploring the Safe Operating Space for Humanity', in *Ecology & Society* 2009.

<http://planetaryboundariesinitiative.org/wp-content/uploads/2013/10/PB-Exploring-the-Safe-Operating-Space-for-Humanity-2009.pdf>

Will Steffen et al.: 'Planetary boundaries: Guiding human development on a changing planet', in *Science* (2015).

<http://science.sciencemag.org/content/347/6223/1259855>

[3] Sam Geall: 'Interpreting Ecological Civilisation' (China Dialogue website 2015).

[https://www.chinadialogue.net/article/show/single/en/8018-Interpreting-ecological-civilisation-part-one- \)](https://www.chinadialogue.net/article/show/single/en/8018-Interpreting-ecological-civilisation-part-one-)

[4] See John Blewitt & Ray Cunningham (eds.): 'The Post-Growth Project' (London Publishing Partnership for Green House 2014. Victor Anderson: 'Alternative Economic Indicators' (Routledge 1991 & 2013).

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