Vince Cable

Business and Environment Speech to the New Economic Foundation

Business and the Environment: Enemies or Allies? The speech explores the role of business in helping tackle environmental issues.

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Thank you for that introduction, Miatta. I'm pleased to be hosting this event with you in Parliament this evening.

I have long admired the work of the New Economics Foundation. You've been a consistent voice for change down the years - and since you yourself have come into post it's been very good to see the energy behind your campaigns on housing, debt and timely issues like a shorter working week.

NEF's work gives us a vision of what a new economy would look like, and I want to expand on that today, with some of my own thoughts about how we should harness the power both of the markets and of the state to confront the big environmental issues facing us and in particular the climate emergency.

In posing the question whether business is an enemy or an ally in this task, let me nail my colours to the mast at the outset: business is an essential ally – provided it is operating within an economy where the rules of the market, rightly set by governments, make it possible to do this. I shall focus most of my remarks this evening on how we alter the ground rules so business can indeed be an ally.

That means there are in fact two challenges to confront: not just economic but also political. Starting with politics, the question is how to break out from the 'green' bridgehead to the political mainstream.

Nationalists and other right-wing populists enjoyed some success in the European Parliament elections. But the largest relative gains were for the Lib Dems and their sister parties and the Greens (who finished second in Germany and third in France). In the UK, the same parties did exceptionally well in prior local elections.

Both Lib Dems and Greens benefitted from anti-Brexit feeling but both also tapped into increased environmental awareness. The Extinction Rebellion and Greta Thunberg's school strikes had the effect of raising consciousness of global warming and climate change, especially amongst young people.

On the other side of the ledger, we have seen numerous discouraging examples of how 'green' policies can become vote losers: Macron's 'carbon tax' which provoked a violent reaction from the 'gilets jaunes'; much as we saw the abandonment of the UK's fuel escalator in the face of the year 2000 fuel protests; the apparent political appeal of 'climate change denial' especially in the USA; the recent, unexpected, defeat of the Australian Labor Party after turning its back on coal; Bolsonaro's contemptuous dismissal of ecological concerns about the Brazilian rain forests; and the growing influence of nationalism, and the hostility to multilateral institutions and rules, makes it especially difficult to tackle these issues – like climate change, single use plastics and degeneration of the oceans – which require cooperative solutions.

The political challenge – then – is to balance the politics of 'bringing people with us' against the urgency of the climate crisis. It is easy to do virtue signalling; more difficult but more important to win over the doubters and the less committed.

On economics, there is another balance to strike: the role of markets and private enterprise on the one hand as against centralised, state, command-and-control mechanisms for producing rapid changes in behaviour and technology, on the other.

All economic students are familiar with the concept of environmental 'externalities' going back almost a century to Pigou – and from that insight came a belief in the power of incentives, taxes and subsidies, to connect the behaviour of producers and consumers within a market economy. But, of late, the sheer magnitude of the changes required have increased the attractiveness of more radical and statist approaches like the Green New Deal.
The challenge here is to keep necessary state intervention to take climate emergency separate from what has become a fashionable, anti-business, hostility to capitalism as a whole. At least part of the 'green' movement is becoming subsumed in a wider ideological movement which treats business in general, and energy companies in particular, as the enemy.

A Liberal Approach

As a former Business Secretary, you would expect me – by contrast – to see business as a critical part of the answer, rather than primarily as a problem. And there's no doubt that many companies are now directly addressing the environmental challenge.

Last week, for example, we saw Unilever's new chief executive, Alan Jope, issue a clarion call to his own sector – and to the trade associations that Unilever is a member of – to get totally behind the 1.5 degree ambition set out in the Paris Climate Agreement… and implicitly to stop their negative lobbying.

Also in the consumer market, the food retailer, Iceland, has taken a stand on the catastrophic impact of deforestation on global warming, driven by the spread of palm oil plantations. None of its own label products now contains any palm oil.

Less strategic but more eye-catching, last week also saw Canary Wharf, home to London's powerful financial sector, declare itself plastic free – a claim endorsed somewhat improbably by Surfers against Sewage.

The change amounts to greatly reducing – but not yet eliminating - single plastic use across its entire estate and in the 40 offices and 300 shops and bars it hosts. Still, if that helps those city 'masters of the universe' to think more carefully about sustainability, we should be positive about that.

I have taken a particular interest in single use plastic - securing a parliamentary debate here on the subject in April – but that is only the highly visible tip of a huge waste 'iceberg'. The economics of the so-called circular economy – where we move away from the old linear model of taking, making, using and then throwing-away to a closed loop model – is now becoming compelling.

The question is what governments can and should do through regulation or fiscal interventions to speed up the transition. Plastic bag levies are a small example. One way to make a bigger shift is to embrace the growing movement for a Right to Repair – setting long-lasting production standards, building in repair and reuse from the outset, making the technology that increasingly governs everything open, and crucially for consumers, requiring spare parts to remain available, so an independent repair economy is possible.

I want publicly to endorse this goal today and support the Manchester Declaration that's been devised by the UK's community repair movement. No doubt Ugo will say some more about this later. This is another example where business can be enlisted as an ally, given the right ground rules.

Cross-party action

Back to the politics, environmental policy is one of those issues – like pensions and social care, and big infrastructure projects – where, unless there is cross-party agreement across elections, nothing happens.

We have to be ready to recognise that on the environment 'left' is not always 'good' and 'right' is not always 'bad. I speak as someone who, pressed on political labelling, will describe myself as centre-left. But I recognise that there has long been on the political 'right' a conservative belief in conservation: stewardship of the land (and the planet).

Perhaps not enough credit has been given to Mrs Thatcher who – whatever else we may disapprove of – led the pioneering campaign for a global agreement to ban CFCs (chlorofluorocarbons) under the Montreal Protocol to stop erosion of the ozone layer. It worked. And she was one of the early voices calling for collective action on global warming. Enough of this conviction survived to produce an all-party consensus around the Climate Change Act.

The failing at the other end of the political spectrum has been an unwillingness to embrace change when it involves significant disruption for the workforce. A leading British trade unionist exercised by the latest crisis in the steel industry recently observed: "given a choice between jobs for my members and a dead planet, I would take my chances with the dead planet". Fortunately such attitudes are unusual; employment in traditional energy producing activities like coal mining has almost disappeared; and it was a Labour government which brought in the Climate Change Act.

There is a danger that competition to be 'greener than thou' degenerates into shrill self-righteousness which in turn loses mainstream support. The best protection against this happening is to create a firewall shielding scientific analysis from dogma. The Climate Change Committee performs this function, setting targets which are stretching but feasible. There are parallels with NICE in making rational decisions on a cost benefit basis or the Bank of England Monetary Policy Committee in economy policy.

An eclectic approach

An eclectic approach has to marry the energy and innovation (and self-interest) of business in a market economy with the capacity of the state to mobile collective action and mandate solutions.

There are many examples – from the unleaded petrol tax to the tax on plastic bags – of the power of price incentives to change consumer behaviour (when alternatives are available) and to get companies to switch production. The competitive auctions to supply power to the National Grid have in recent years forced down the price of offshore wind from roughly three times the strike price of the cheapest hydro carbons – LNG gas – to rough parity; and competitiveness was achieved by large scale investment, achieving economies of scale.

There are also plenty of examples of regulation successfully forcing changes in consumer and producer behaviour. The Clean Air Act phased out domestic and industrial coal burning. The car industry across the Western world responded quickly to fuel efficiency standards and latterly to emission standards.

The successful Montreal Protocol phasing out CFCs involved banning polluting substances. In all these case standards were not purely arbitrary but negotiated with industry to establish feasibility. In practice, successful environmental policy involves better market-based incentives and regulation of business.

The Climate Change Emergency

There are many environmental challenges but I will focus on the biggest and most challenging: climate change. It is also global. At a time when a significant section of our politics is urging a unilateralist, nationalistic approach to the world, we must bear in mind that internationalism is a prerequisite for meaningful environmentalism.

A fairer world cannot be achieved in one country. Liberals share the vision of fairness but we recognise that the UK has 1% of global population and 2% of global GDP so Britain's contribution is meaningful only as part of a collective effort at European, then global, level. Within that framework we have a special obligation as the country which led the way in large scale industrial carbon emissions, and is still a major emitter.

If the talk of a climate emergency is to be translated into real action, then the following are among the policies we should be pursuing:

First, targets. Targets matter to set a performance goal against which governments can be held accountable but there is no value in politically inspired targets designed to signal virtue but which are undeliverable. Suggestions by protesters that Britain could achieve zero (net) greenhouse gas emissions by 2025 fall into that category. The Climate Change Committee by contrast has suggested that the current very testing objective of achieving the 80% reduction in carbon emissions on 1990 levels by 2050 could – just about – can be made more ambitious, reach zero carbon by 2050, if radical but achievable action is taken: namely the unilateral replacement of all vehicle engines by electric vehicles; the elimination of hydrocarbons from power generation, large scale reforestation etc.

Second, it requires a reform of the way that long-term projects are evaluated. The Stern Report on climate change took the view that the benefits or costs of long-term investments designed to achieve carbon reduction as part of a climate change strategy should not be discounted (on the grounds that the very long-term changes involved can have irreversible consequences for future generations). The traditional Treasury 'green book' approach is too conservative for this purpose.

And only last week, the Chancellor was bandying around vast figures for the cost of green energy which took no account of the benefits or the long term.
A classic example at present is how bad decisions are made in this regard is in relation to tidal lagoons in South Wales. This renewable energy scheme failed a Treasury value for money test largely because the benefits (of carbon free electricity at zero marginal cost) were ignored after a 30 year cut off point. In fact, it is the benefits beyond the cut-off point which matter if we are looking at the long term impacts of climate change.

Other examples which would almost certainly progress more easily would be large scale reforestation; a programme of loans to households for energy conservation (the so called Green Deal failed under the Coalition because it employed market interest rates); a national network of electric vehicle charging points where network externalities would not be captured by leaving investment to the market.

The difference between the market cost of government long term borrowing (or the borrowing costs of low risk utilities) and the social return of climate change projects has, however, to be borne by someone, and we need to acknowledge that it will be consumers and the government.

Third, it is important to address the issue of economic disruption in moving to a greener economy. What I am describing here is called by some 'the Green New Deal'. I know that Ann Pettifor, on our panel today, worked on the concept more than a decade ago.

This growing movement for a transition to a new green economy in which social justice and sustainability are intertwined is gaining critical ground. Ensuring, for example, that there are green jobs to replace those which will be lost as the carbon-heavy industries are wound down, it is important if workers are not to lose out in the same shameful way that the miners did during the 1980s.

This is good politics. If sustainability is seen to be an attack on 'ordinary people' it will meet mass resistance as we have seen in France and the United States.

For my own part, I have, however, been reluctant to embrace the particular language of 'green new deal', not because I in any sense deny the need for a radical transition from the old economy to the new...

...but because retaining cross-party buy-in, market buy-in and consumer buy-in requires us to be disciplined about different concepts.

For example, the motivation of a big Climate Change investment programme has no intrinsic link with Keynesian, job creating programmes. Many of the highest value programmes create few jobs. And whatever the economic failures of today's policies they don't include mass unemployment.

The Green New Deal has also become entangled with new approaches to monetary policy. For my own part I recognise the role of unorthodox monetary policy in a financial emergency, but I am sceptical about 'quantitative easing'– printing money - as a way of hiding the costs of ambitious green investment by monetising government borrowing.

I would prefer to be honest about the costs. Liberal Democrats have been clear at successive elections that we want to see large scale infrastructure investment, much of which would be spent on just the kind of productive investment a new green economy needs, alongside a restored Green Investment Bank. But it necessarily adds to public borrowing and we shouldn't conceal this as opposed to disentangling current and capital spending.

The fourth, critical, linked element in this approach is to have a re-energised industrial strategy in which 'green' economy activities have an important (though not exclusive) role. Examples would be to build on the work of the Automotive Council to promote electric vehicle transformation and infrastructure in the car industry; or the wind power sector, building UK supply chains; or the construction sector group working on energy efficient building materials and techniques.

The purpose of an Industrial Strategy, which I brought back in 2011, is to develop a collaborative approach between public and private sector, giving business the confidence to invest long-term. Government can help by funding research and innovation through bodies like the Catapult network; supporting training and apprenticeship programmes; and ensuring that there are no gaps in funding markets (the Green Investment Bank did just that, successfully, and was -shamefully- sold to realise cash. It must be reinstated, perhaps renationalised).

To add to these four essential elements – ambitious targets, reformed investment rules, green jobs and innovative industrial strategy, all of which are designed to catalyse green growth – we have to add a fifth measure: active brakes on the damage caused by carbon generating industries.

Carbon (and other GHGs) must be properly priced in a consistent way. The principles and practicalities of carbon taxation (or permit trading, which has similar – if more precise – outcomes) have been debated over many years and blueprints for a more comprehensive and universal system have been set out by Michael Grubb and others. In a UK context, what this means in lifting the carbon price floor; reinstating the exemption for renewable energy from the Climate Change Levy; using Vehicle Excise Duty and company car tax to incentivise electric vehicle ownership and overall fuel efficiency; and using stamp duty or council tax variation to encourage energy efficiency.

The main political problem is the added cost of private transport, already heavily taxed through excise duty, for those in remote rural areas or otherwise badly served by public transport. It has always seemed to me that if the environmental purpose of carbon tax could be separated from the Treasury's appetite for revenue, many of these problems could be overcome.

The only way to do this is to ensure overall tax neutrality, so – for example – more punitive charges for driving in big cities, well-served by public transport, could be balanced by a more sympathetic regime for those in the most remote areas. Such judgements are fraught with political difficulty, but a development of the PTAL (Public Transport Access Level) index ought to be within the wit of national government.

Having taken account of those domestic difficulties, we have to recognise – too – that carbon taxation must be international. If it is not, energy intensive industries are likely to ship their business overseas to lower tax jurisdictions, meaning just as much carbon for the planet, but less investment for the British economy.

This problem, too, can be overcome, if the EU operates as one carbon tax unit, with the same rate across the single market.

For non-EU imports, there should then be a 'carbon tariff', an effective tax on goods from any country with no comparable domestic carbon tax, to reflect their carbon energy content.
If this were done unilaterally it would be seen as protectionist and as pouring petrol on the trade conflict with China in particular; so the right to tax impacts in this way would have to be built into global climate agreements.

And, finally, there is the role of financial markets in steering capital away from carbon intensive activities, in particular divestment. There are two strands to this argument. The Governor of the Bank of England has warned that if there is a rapid transition to low carbon fuels, the coal, oil and gas companies will be faced with falling demand, a sharp fall in prices and 'stranded', devalued, assets which necessitate a write down in the balance sheets of the companies and financial intermediaries who hold their stock. It remains to be seen how rapid this impact proves to be.

Certainly it is good to see the increase in voluntary reporting by companies of the possible financial impacts of climate change, under the so-called TCFD initiative by Mark Carney and former mayor Mike Bloomberg (Taskforce on Climate-related Financial Disclosures). This is a good example of how to nudge companies to do the right thing, in their own long term interest. Once this is widespread – and I would support moves for mandatory reporting in this area – savvy investors will be able to divert capital to the industries and business models of the future.

The other strand is from well-intended campaigns pressing pension funds and other investors to sell off their shares of energy companies. To some extent this is a gesture: like the sale of shares in tobacco, arms, labour abusing and other 'bad' companies. To an extent there is also an economic logic: an exodus from the mandate should in theory make it more difficult to raise capital to invest in new carbon intensive supply. However, if that strategy is successful, reduced supply will lead to higher prices, more profit (for self-financed investment) and stronger balance sheets.

I would suggest that if long-term investors can be persuaded that they should rebalance their portfolios to take account of climate change, surely it makes sense to incentivise energy companies to diversify into renewables, and then to reward or punish them according to their performance, rather than attack their very existence. Shell has volunteered for this kind of capital market discipline.

Conclusion

So to conclude before we move to our panel discussion, I want to stress the essential tenets of a liberal approach to tackling environmental issues within a reformed market economy.

- Governments working hand in hand with each other, across international borders, and with business as an ally not an enemy of reform

- A decentralised approach domestically, allowing the spread of good practice as in US states like California, the green controlled 'Länder' in Germany, and enterprising local authorities in Britain.

- And a clear understanding of the power of individuals too. We should never underestimate the influence of millions (or billions) of consumers motivated by an understanding of the collective impact of individual idealistic behaviours.

In essence, a Liberal approach rejects the ideologically anti-business line of some environmentalists. It acknowledges that there are good and bad companies as there are good and bad governments and individuals.

It is government's job to give the right signals through regulation and taxation. And where those policy choices are made well, businesses will deliver good environmental outcomes not just by necessity but by choice.

I look forward to our discussion. ■