

The Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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1st March 2021

Dear Chancellor,

Budget 2021: five priorities for a green and fair economic recovery

This is the last budget before the UK hosts the COP26 climate summit in November. It will be a litmus test of the UK's ability to show leadership and deliver action on climate and nature, and will be viewed by the world as such. The budget must set the UK firmly on the path to a green recovery. Do that well, and the Government can deliver on promises to level up the nation, while building back fairer by reversing the pre-existing inequalities worsened by the pandemic.

We are writing to offer five priorities for action. These are informed by a meetingⁱ of the APPG on the Green New Deal and the APPG on Limits to Growth, which explored with leading experts what the budget needs to include to deliver a green and fair recovery. Every decision that the Treasury makes should be through a climate, nature and equality lens, and this budget must be the start.

1. Now is the time to stimulate, not 'consolidate'

With unemployment forecast to rise to 2.6 million by the middle of the year, this budget must be delivered in stimulate mode not consolidate mode. Institutions from the OECD to the IMF and the IFS are as one in their assertion that now is the time for governments to invest. According to the OECD's chief economist Laurence Boone, we have entered a new era of 'debt sustainability'ⁱⁱ. As Lord Turner set out at our pre-budget meeting, debt is sustainable not only because of historically low rates of interest, but also because, if necessary, some of the Bank of England's asset purchases through the pandemic could simply be written off.

In the short term, government borrowing at zero to negative interest rates can provide the resources needed for a green recovery. Such borrowing would be good for the climate, good for nature, good for jobs, good for equality and good for the recovery. Locking in large scale green investment now is the basis for longer-term stability.

2. Create over a million good green jobs with targeted investment of £48 billion

A priority for Government investment must be to invest in the creation of good, well-paid, jobs that also advance progress towards the UK's climate and nature goals. According to the New Economics Foundationⁱⁱⁱ, investment of £28 billion in energy efficiency, insulation, ground source heat pumps and other decarbonisation measures over the next 18 months could unlock 400,000 jobs over next two years, directly and through the supply chain. An additional investment of £20 billion in social infrastructure would create critical jobs in local services and public health, yielding an additional 700,000 jobs. These jobs are not only local to every community; they are inherently low in carbon.

3. A tax system to support a green and fair recovery

A thoughtful approach to tax can support a green and fair recovery. Carbon and environmental destruction can be taxed in ways that have positive distributional impact^{iv}, drawing on the model of the proposed frequent flyer levy, for example. Progressively reducing tax breaks for polluters

would incentivise the transition from fossil fuels, driving change in high carbon sectors and supporting the innovation that will help the net zero transition.

Tax Justice UK have shown that there is significant public support for some form of wealth tax, including 64% of Conservative voters. Wealth is currently undertaxed in a range of areas. According to the Wealth Tax Commission, led by the LSE and the University of Warwick, a one off 5% tax on wealth over £2 million could raise £80 billion.^v There are also practical and ethical arguments in favour of a windfall tax on businesses that have profited from the pandemic, and for the hypothecation of the revenue from such a tax.

4. Update the Bank of England mandate on climate

This Budget must prioritise measures to align the financial sector with the UK's climate and nature goals. The Treasury should update the Bank of England's mandate to the extent required to ensure its activities, and those of banks that it regulates, are fully aligned with the 1.5° C goal of the Paris climate agreement. Currently, the Bank of England's £20bn corporate bond purchase scheme is aligned with 3.5° C warming^{vi}, and allows the Bank to buy debt issued by fossil fuel companies such as Shell and BP^{vii}. The Treasury should also work with the Bank of England to accelerate projects which deliver sustainable job creation, for example by helping to finance a National Infrastructure Bank, and by introducing environmental incentives to its Term Funding Scheme, which provides cheaper funding to lenders.

5. Towards a Wellbeing Budget with new measures of progress to guide a green recovery

This Budget should mark a turning point towards new measures of economic progress. The success of the UK's economic recovery should not be judged mainly in terms of GDP growth, but on the extent to which it enhances the health and wellbeing of individuals, communities and the environment. That means the Treasury targeting and reporting on the economic, social, environmental indicators that determine whether people can live healthy and fulfilled lives.

The Wellbeing Economy Governments (WEGo) alliance^{viii} showcases alternative economic approaches already being adopted at national and regional level. This includes New Zealand, which implemented the world's first Wellbeing Budget using a 'living standards' framework that has been operationalised for budgetary and spending decisions across government^{ix}. As Chancellor, we look forward to you championing the Treasury-commissioned Dasgupta Review, which calls for urgent and transformative change in how we think, act and measure economic success to protect and enhance our prosperity and the natural world.

With the UN report *10 New Insights in Climate Science 2020*^x warning that economic stimulus focused primarily on growth would jeopardize the Paris Agreement, the UK, as host of COP26, should be leading the world towards a new economic paradigm, fit for the 21st century, where we repurpose the economy to serve the wellbeing of people and planet, today and tomorrow.

We urge you to consider our proposals in full as you prepare the last budget before COP.

Yours sincerely,

Caroline Lucas MP

Clive Lewis MP

Debbie Abrahams MP

Wera Hobhouse MP

Dr Lisa Cameron MP

Ben Lake MP

Claire Hanna MP

Stephen Farry MP

Liz Saville Roberts MP
Nadia Whittome MP
Beth Winter MP
Barry Gardiner MP
Alan Brown MP
Tony Lloyd MP
Sarah Olney MP
Baroness Jones of Moulscroomb
Baroness Lister of Burtersett
Baroness Bennett of Manor Castle
Baroness Tyler of Enfield

References:

ⁱ A budget for a green recovery: A special session of the APPG on the Green New Deal and the APPG on Limits to Growth, 24 Feb 2021 <https://limits2growth.org.uk/events/budget-green-recovery/>

ⁱⁱ OECD warns governments to rethink constraints on public spending, Financial Times, 4 January 2021 <https://www.ft.com/content/7c721361-37a4-4a44-9117-6043afee0f6b>

ⁱⁱⁱ The New Economics Foundation as part of the Build Back Better coalition has put forward a set of recommendations for the Spring Budget: <https://www.buildbackbetteruk.org/the-peoples-emergency-budget>

^{iv} Further proposals from Tax Justice UK: <https://www.taxjustice.uk/blog/tax-reform-and-climate-justice-time-to-act>

^v Advani, A, Chamberlain, E and Summers, A, *A Wealth Tax for the UK*, the final report of the Wealth Tax Commission, December 2020: <https://static1.squarespace.com/static/5ef4d1da53822a571493ebd0/t/5ffcfaea93e2771243fce2ff/1610414842497/A-Wealth-Tax-For-The-UK.pdf>.

^{vi} The Bank of England's climate-related financial disclosure 2020 June 2020: <https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2020/climate-related-financial-disclosure-report-2019-20.pdf?la=en&hash=5DA959C54540287A2E90C823807E089055E6721B>

^{vii} Joint letter to the Chancellor Rishi Sunak and Bank of England governor Andrew Bailey signed by more than 120 leading figures from civil society and academia, including former Bank of England Monetary Policy Committee member Willem Buiter; former White House adviser Nouriel Roubini; and founding director of the UCL Institute for Innovation and Public Purpose, Mariana Mazzucato, 16 November 2020: <https://positivemoney.org/2020/11/sunaks-green-finance-plans-come-under-fire-from-experts-press-release/>

Letter from Environmental Audit Committee to Bank of England, January 2021: <https://committees.parliament.uk/publications/4394/documents/44443/default/>

^{viii} Wellbeing Economy Governments (WEGo) alliance: <https://wellbeingeconomy.org/wego>

^{ix} New Zealand's Wellbeing Budget: <https://www.weforum.org/agenda/2019/05/new-zealand-is-publishing-its-first-well-being-budget/> Dr Suzy Morrissey, Wellbeing Economy Alliance, New Zealand, former Policy and Engagement Lead for the Living Standards Framework, NZ Treasury spoke at the APPG pre-budget meeting on 24 February 2021

^x UNFCCC, 10 New Insights in Climate Science 2020, 27 January 2021: <https://unfccc.int/news/new-report-reveals-top-10-insights-in-climate-science-in-2020>

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