The Limits of Green Keynesianism

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A Marxist response to "A New Green Deal," published by the UK-based New Economics Foundation in July. Sean Thompson is active in Green Left, an ecosocialist, anti-capitalist current within the Green Party of England and Wales

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The authors of NEF's *New Green Deal* report deserve our thanks. At a time when most economists, politicians and bankers are rushing around like headless chickens, the New Green Deal Group have recognised what most others have signally failed to; that the current crisis is not just current and financial, it is the first of three overlapping and global crises that we face. This "triple crunch," as they call it, is a combination of the banking crisis we are now experiencing, the ongoing and ever growing threat of climate change and the explosion of energy prices caused by the imminent approach of peal oil.

"These three overlapping events," they say, "threaten to develop into a perfect storm, the like of which we have not seen since the Great Depression.

The report proposes that we should deal with these three interlocked crises with twin strategies; first, "a structural transformation of the regulation of national and international financial systems, and major changes to taxation systems" and second, "a sustained programme to invest in and deploy energy conservation and renewable energies, coupled with effective demand management." These strategies are fleshed out by a number of specific(ish) policy proposals;

Infrastructure development

- A huge programme of investment in energy conservation (including a massive domestic insulation and micro CHP installation) and the development of renewable energy generation capacity.
- A vast environmental reconstruction programme, along with the recruitment and training/retraining of the hundreds of thousands of workers required.
- Significant increases in fossil fuel prices on order to force energy efficiency and to make alternative energy sources more attractive.

Fiscal measures

- The establishment of an Oil Legacy Fund, financed by a windfall tax on the profits of the oil and gas companies.
- The development of a package of other fund raising measures, such as government and local authority bonds, "Go Green" national savings bonds and investment from the pension funds.
- A significant reduction in the the Bank Rate in order to help finance a new energy and transport infrastructure, along with much tighter controls on lending and on the generation of credit.
- The forced de-merger of large banking and finance groups, which should then be further split into smaller banks. At the same time, retail banking should be split from both corporate finance and from securities dealing.
- The reintroduction of capital controls by national governments.
- Strict regulation of derivatives and similar spivvy wheezes and, in the long term, downsizing of the financial sector in relation the the rest of the economy.
- Minimising corporate tax evasion by clamping down on tax havens and ensuring transparent and honest corporate financial reporting

International negotiation

- The Government should negotiate international agreements that allow national autonomy over domestic monetary and fiscal policy, set an international target for atmospheric greenhouse gas concentrations, establish Kyoto 2, financing poor countries' investments in climate change adaptation and renewable energy generation and assisting the free transfer of new energy technologies to developing countries.

Farsighted, radical … and too narrow

This is a more far sighted and radical package of proposals than any currently on the desk of any finance minister or central banker in the 1st World. However, I believe that the proposals come from a too narrow — if entirely understandable — focus on the immediate need for economic stability and big reductions in carbon emissions and fail to recognise the cyclical instability that is an inherent characteristic of the capitalist dynamic, or the unproductive speculative impulse that lies at the heart of capitalism.

The report hardly seems to notice the increase in the already wide inequality that neoliberalism has manufactured in our society, inequality which is getting worse as a result of the crisis we are currently facing, which will get much worse in the deep recession we are rushing towards, and which lie at the heart of the most intractable social problems we face, from fuel poverty, poor health and obesity to crime, drug addiction and family dislocation. As a result, the report in some crucial ways misses the point and consequently many of its proposals are too timid.

It is, of course, true that the current global financial crisis has been triggered by the collapse of the credit fuelled property bubble in the United States. It is also undeniable that the bubble was the inevitable outcome of the financial deregulation of the late seventies and eighties that led to an enormous expansion of financial markets, an explosion of credit and the development of ever more exotic and arcane speculative vehicles. For twenty five years or more there has been an ever flowing fountain of cash pouring into the financial markets. In the United States, total financial assets averaged around 440% of GDP from the early '50s to the late '70s. Then they started to climb steadily; to over 600% in 1990 and over 1000% by 2007.

With a few unpleasant interruptions (the stock market crash of the late '80s, the Asian and Mexican financial crises of the mid '90s, the dot-com bubble of the early 2000s) it seemed as if Wall Street and the City had entered an eternal bull market.

In reality, this ready access to credit — for speculative financial ventures (on the part of the rich) and for housing and unsustainably cheap consumer goods from China (for the rest of us) — helped disguise the ongoing relative decline of western (particularly US and UK) manufacturing industries and the the hollowing out of their real economies. What this has led to is both an increase in personal indebtedness and a dramatic inflation in the value of assets (stocks and shares, houses etc.).

Commodity inflation was suppressed by falling labour costs, which were kept down by the introduction of the Anglo Saxon concept of "flexible labour markets," heavily reinforced labour discipline through the imposition of draconian labour laws and the export of manufacturing to China and the Far East. As the New Green Deal puts it, this asset inflation "explains why the rich have got richer within the liberalised financial system and the poor have become poorer and more indebted."

All this make it irresistibly tempting to call for the re-regulation of finance — and indeed, that is desperately needed. But this crisis hasn't happened just because Thatcher and Reagan's deregulation of finance introduced instability into the capitalist system, and that after each crisis since the late '70s the system, when it bounced back, was even more unequal, unbalanced and distorted than before. The underlying cause of the crisis is the inherent boom/bust instability that lies at the heart of the capitalist system, particularly the financial markets.

Why capitalism has to keep expanding and is inherently unstable

In pre capitalist economies, where money played an enabling role, the circuit of commodities and money existed in a form in which particular commodities (or use-values) constituted the end of the economic cycle. A commodity embodying a particular use-value is sold for money which is used to purchase a different commodity, or C-M-C. So each circuit is closed by the consumption of a use-value.

However, in the case of a capitalist economy, the circuit of commodities and money begins and ends with money. Money is used to purchase commodities which are sold on for money, or M-C-M. Of course, since money is simply the abstract expression of a quantitative relationship, such an exchange would be meaningless if the same amount of money was exchanged at the end of of the process as at the beginning.

So the actual formula in reality is M-C-M*, where M* is in fact M+m or profit, or capital, or, as we dried out bitter old Marxists say, surplus value. Of course, the big difference between this and simple commodity production is that there is no end to the process, since the object of the process is not final use but the accumulation of capital. So the M-C-M* produced in one year leads to the m being reinvested, leading to MC- M** the next year, M-C-M*** the next, and so on ad infinitum. Just like a shark needs to continually keep on swimming in order to survive, so does capitalism need to continually go on expanding.

The mainspring of this drive to accumulate is competition. This competition forces every player in the market to grow through continual reinvestment in order to survive. In the case of banks, the commodity to be bought and sold is credit (or conversely, debt). Competition puts banks and brokerages continually under pressure to try to expand their markets by issuing loans to riskier and riskier customers and speculate on riskier and riskier derivatives.

As the Canadian economist Jim Stanford has said "Capitalism is nothing if not creative and the financial industry has lured some of humanity's smartest minds to focus on the utterly unproductive task of developing new pieces of financial paper, and new ways of buying and selling them. Despite the finger pointing at mortgage brokers and credit rate, therefore, the current meltdown is rooted squarely in the innovative but blinding greed that is the raison d'être of private finance."

So the financial system is both structurally unstable and impossibly unpredictable — although this crisis, triggered by the bursting of the US and UK housing bubbles, should have been predictable enough. This inherent instability, compounded by the deregulation of the markets demanded by financiers and the consequent global mobility of capital, has led us to shift, seamlessly and almost overnight, from a situation where credit was sloshing around our knees to one where credit has virtually dried up and bankers throughout the world are curled up and trembling in foetal positions with their eyes shut and their hands over their ears — apparently all as the result of the sleight of hand of a relatively tiny number of spivs and hucksters.

Credit creation is an essential social and economic function, but it has been largely handed over to private banks — with, it appears, bugger all regulatory or social oversight — whose raison d'être is to maximise their own profit. When their cost-benefit or risk analyses diverge from those of society as a whole (and they do frequently), the economy finds itself with too much credit, too little, or in a really desperate crisis (like now) none at all. Of course, we need credit as an essential lubricant to ensure the liquidity of institutions and ordinary people in the real economy, but that credit supply needs to be stable and at the right level. We have the living proof before us that "the market" cannot ensure that; only governments can.

Beyond stabilisation to transformation

For that reason, we need to go beyond the proposals in the *Green New Deal*, which look more modest by the day. The report's key proposals for financial renewal include a big reduction in the Bank of England interest rate, tight controls on lending and on the generation of credit, the forced de-merger of large banking and finance groups, the divorce of retail banking from both corporate finance and securities dealing, the reintroduction of government controls on capital flows, strict regulation of derivatives and similar spivvy wheezes and the long term downsizing of the financial sector in relation the the rest of the economy.

Now all these proposals are fine as far as they go but the report seems very shy about dealing with the central issue; the inevitable necessity to exert direct state control over the domestic financial system in order to implement any of the proposals in a meaningful way.

This certainly means making our central bank (the Bank of England) the main tool in the government's strategy of financial intervention by reversing its so-called independence and by changing its current narrow and negative neo-liberal remit of limiting price inflation to a much more positive one of actively promoting economic health and full employment.

Whether or not this will lead to the rapid nationalisation of the banking system as a whole is currently uncertain. The Government has already nationalised Northern Rock and part of Bradford and Bingley and as I write, Alastair Darling is talking about the Government requiring equity holdings in return for the huge sums it is pumping into the banks to maintain at least some liquidity — and the banks are likely to become steadily more dependent on the Bank of England as their wholesale loans are not being rolled over as they become due for payment .

The BBC's Robert Peston (an essential source of information for us all at the moment) pointed out a few days ago that while in 2001 the gap between the money lent by the banks and what they took in from conventional deposits was zero, by the end of last year the gap had grown to £625b — a staggering dependence on the wholesale markets. Over the past few months the gap has been filled by loans from the Bank of England; effectively, says Peston "Its a sort of nationalization by stealth."

Nationalization, through receiving equity in return for recapitalisation, is a perfectly practical option — all the more so as yesterday shares in RBS dropped by 20% and the FTSE had its biggest ever one day drop, with shares losing £93bn off their values. HBOS has lost 76% of its value in the last year, Lloyds TSB has lost 52%, Barclays has lost 40% and RBS has lost 58%. So they have nowhere to go except the state.

To quote Jim Stanford again; "At the end of the day, the risks associated with private finance will always be socialised (as they have been in the current crisis) simply because the costs of the major financial failures are too severe, and too widely distributed, to tolerate. So why don't we socialise the whole process, or at least part of it?"

However, there is absolutely no point in the state taking all or part of the equity — and toxic debt — of the banks simply to ride this crisis out and then to return to business as usual. We have to find more equitable and publicly accountable ways to create a stable supply of credit without recourse to the anarchic and irrational monster that private finance has become. Rational lending in the real economy — to consumers, home buyers and productive undertakings — is a necessary public service we all depend on, but we can't trust the market to provide it reliably. So we need to develop alternative vehicles, including banks brought into public ownership, credit unions, building societies and other mutuals and not for profit institutions.

A few days ago one commentator said that the Government's apparent policy of allowing, or even encouraging, the development of ever larger financial institutions through amalgamations or take-overs in order to deal with the weakness of institutions like HBOS and B&B was in danger of creating a situation where instead of there being institutions the government couldn't afford to fail, there would soon be institutions the Government couldn't afford to save. The authors of the Green New Deal are quite right to suggest that we must reverse this policy, but I fail to see how the forced de-merger of behemoths like Lloyds TSB, Barclays, RBS etc. could be effected without complete state control — if not ownership — of their assets.

A new industrial revolution

The authors of the *Green New Deal* have taken their inspiration, as well as the title of their report, from the programme developed by Franklin D Roosevelt in response to the post 1929 Depression. Like him, and like Keynes, they propose an ambitious programme of public works and infrastructure development. Only it isn't ambitious enough.

While the proposals to spend £50-70b a year on a massive programme of energy conservation measures coupled with a similarly vast programme for the development of renewable energy sources are admirable, they are so tightly focussed on the trees that they don't notice that the wood is in danger of rotting away.

Manufacturing industry in the UK now only amounts for around 25% of the economy. At the beginning of October, the *Guardian* reported that the UK manufacturing sector is shrinking at the fastest rate since records began 17 years ago. It reported that levels of output, new orders and employment in the manufacturing sector had recorded unprecedented declines in the previous month. The British Chamber of Commerce has reported that all the main indices in its most recent quarterly survey — sales, orders, profitability and confidence — were down for manufacturing and services firms of all sizes, findings that are described as "exceptionally bad." The BCC is now predicting that unemployment will exceed two million next year. There can be no doubt that this situation can only get a great deal worse.

Our manufacturing base has been withering since Thatcher decided that a Post Industrial Britain didn't need to concern itself with making things; there was far more money (for some) in manipulating financial paper. In particular, our engineering and construction industries have been hollowed out and our previous army of skilled engineers and builders dispersed, with no one replacing them. So now, if we need more trains (and we do) we must buy them from Germany or France, because we have no locomotive building industry any more. If we want large wind powered generators we have to wait in the que. for them at German and Danish (the world leaders) manufacturers, because we currently have no large wind generator manufacturing capacity, despite having the best conditions for wind power on earth!

The *Green New Deal* report predicts that the development of the admirable low-carbon energy system and environmental reconstruction programme it proposes will “see hundreds of thousands of…jobs created in the UK. It will be part of a wider shift from an economy focussed on financial services and shopping to one that is a an engine of environmental transformation.” That is certainly a desirable goal, but it will not happen without the most massive and rapid programme of investment in the retooling of industry and reskilling of labour that we have seen since the Second World War.

If our aim is to build a whole new low-carbon energy system, along with other aims not mentioned by the report, such as a totally renewed public transport system, a sustainable water supply system and a massive programme of social housing to meet the needs of the five million families on waiting lists for a home, we are going to need nothing less than a new industrial revolution. We need to develop/redevelop the capacity to implement a to huge production programme encompassing mini and micro CHP equipment, wave and offshore wind generator production, a whole new grid infrastructure, energy efficient buses and rail/light rail vehicles, low impact buildings and building materials etc., etc. (which, incidentally, would almost certainly place us on a collision course with the EU Commission). As the report’s authors put it, there is a “need for mobilisation as though for war.”

Although hundreds of thousands of jobs would be created by such a programme, the major changes in industrial strategy that are implied by the report — for example, contraction of the motor vehicle, armaments and aero-space industries and the run-down of much of the existing electricity generation capacity — would lead to a need to transfer and retrain workers moving from declining to rapidly expanding sectors. To gain public support, including crucially the support of the unions and the workers effected, such changes would have to be accompanied by an absolute guarantee of jobs and retraining with no loss of pay or security and a guarantee of rehousing rights where necessary. Funding and the market

But of course, such a huge programme must be financed, and it is here that the report is either at its most optimistic or at its weakest, depending on the hue of your tinted glasses — and mine, I’m afraid, are not very pink at the moment. Having listed the three key planks of FDR’s New Deal, authors of the report tell us that; “The *Green New Deal* will, however, differ from its 1930s predecessor in that there will be a much bigger role for investments from private savings, pensions, banks and insurance.”

Every fund raising measure, in fact, apart from flag days and bring and buy sales. Strangely, even though the report points out that the programme will cost the equivalent of 3.5% of GDP — much the same as was committed to FDR’s New Deal — it doesn’t explain why, though FDR funded his programme largely with public spending, we should not do the same.

The report suggests that the government funding required could come in part from the increase in its income from rapidly rising carbon taxes and carbon trading. Leaving the issue of carbon trading aside at the moment (for a later day of vituperative diatribe), the report doesn’t mention either the potential for the redistribution of existing government spending (on Trident, Iraq/Afghanistan, existing PFI contracts etc.) or increased taxation, both personal and corporate, so the prosperous, not to say the filthy rich, could pay their fair share.

However, it does mention government bonds. Now, there is nothing safer than a government bond. However, monetarist policy was to reduce government spending and debt and thus to reduce the supply of government bonds, encouraging institutions to go for riskier assets. Increasing the supply of government bonds not only produces a valuable stockpile of public debt, it can also serve as a stabiliser to the financial system.

So the idea of using government bonds as a funding vehicle for the project, along with local authority bonds and various novelty variations aimed at suitable sections of the public, particularly in the form of "green gilts" is a sound one. And the report is quite right to look to the pension funds as a long term source of funding.

However, as the report itself says "Pension funds are not charities. They are governed by the obligations of fiduciary duty to pursue the best interests of their members [in other words, to maximise profits] rather than the ethical whims of their trustees." In reality, their policies have tended to be steered more by what is good for the fund managers' bonuses than anything else. The reports authors suggest that two factors might lead pension funds to change their investment strategies; a growing realisation of the threat of climate change and the tightening of regulations on pension fund disclosure and valuation.

The first of these factors can, I think, fairly confidently discounted. It requires a long term view that is, for most fund managers, an unaffordable luxury, rather like expecting a football manager to plough most of his transfer funds into a training school for young players. however, the second factor is potentially significant. In practice it is about using the power of the state to determine the investment strategies of the fund managers. But why not simply cut through the Gordian Knot and require pension managers to put a minimum percentage of their funds into government bonds?

The report points out that the Norwegian state has used its oil income to establish a huge investment fund that underpins its state pension scheme. Thatcher, of course, used our oil revenue to fund tax cuts and mass unemployment. It suggests that we could follow Norway's lead (a couple of decades late) and set up an Oil Legacy Fund, paid for primarily by a windfall tax on oil and gas company profits. Part of these increased revenues, it is suggested, would be needed "to raise benefits for the poorest people in our society" who would otherwise suffer from the inevitable rises in the prices of fossil fuels that peak oil and carbon taxes would generate.

We already have five million households in Britain classified as suffering fuel poverty (that is, more than 10% of household income going on fuel). The recent huge increases in gas and electricity will literally be, literally, the death of hundreds, possibly thousands, more pensioners this winter. The report suggests that: "grants would be required to cover 100% of the cost of changes needed to the dwellings of the most disadvantaged, to increase energy efficiency and fit renewables."

Is that it? What about challenging poverty? What about equality?

Taming the market?

If we seriously want to gain popular support for the *New Green Deal* or similar strategies, we should be arguing that the policies we propose will constitute a war on poverty and unemployment right now, rather than a programme of grants and benefits to ameliorate the worst of effects of peak oil on the poorest. We must be clear, both to ourselves and to the mass of ordinary people, who stand to gain from such a strategy and whose active support is necessary for its successful implementation, that it is going to be necessary to challenge both the domination of the market and its powerful defenders, whether they are financiers, EU Commissioners or the boards of multinational corporations. And here we come to the key limitation of

Keynesianism, whether green or any other colour; essentially it has always been about trying to stabilise a fundamentally unstable system rather than transform it. It seeks to civilise the market rather than challenge its domination and tame it.

Not only can we not trust the market to find the funding for the sort of measures advocated in the *New Green Deal*, we can't trust the market — or its functionaries — to implement them. The report's failure to recognise this is a major weakness, as is its exclusive focus on energy conservation and renewable energy as the vehicles of economic restructuring.

In reality, there is little point in a new low-carbon energy system without a completely renewed public transport system, since transport accounts for 24% of our carbon footprint. And it is impossible to develop a sensible energy conservation programme for our homes, workplaces and public buildings, particularly the report's "every building a power station" policy, without dealing with the inextricably linked needs for a renewed and sustainable water supply system and a massive programme of social housing.

There is a consensus that we cannot trust the market to deliver or maintain a national railway service and that therefore the railways should be brought back into public ownership. I think that it is self evidently true that we cannot trust the power companies to develop a sustainable and equitable energy service, not the water companies to deliver water and remove waste in a socially and environmentally just way. Therefore, I suggest that one of the preconditions of the sort of vast infrastructural reconstruction advocated in the report is the taking into public ownership not only the railways, but all public transport services and the power and water utilities.

While the idea of an Oil Legacy Fund is an excellent one, using it to continue to subsidise poverty rather than challenge it is hardly likely to excite the popular imagination. Far better that we use it, together with a hypothecated National Insurance Fund, to underpin a decent pensions scheme that does not leave the old, the disabled and the vulnerable in poverty. Fuel costs could be dealt with by a variation on Mayer Hillman's carbon rationing proposals; the allocation to all households a free energy allowance (weighted so that single person households were not disadvantaged) with all energy consumed above the free allowance charged at a progressively higher rate. Clearly, such a proposal would not be practicable in the context of privatised oil, gas and electricity suppliers.

Conclusion

The report is right to say that the current crisis, in which the US banks alone have lost something like $1.6 trillion so far, undermines the credibility of the whole neoliberal project. In the words of one of the *Green New Deal* Group, Ann Pettifor "Flawed monetary policies are turning a crisis into a catastrophe." It is also right to point out the need for good old-fashioned direct government spending and job creation, putting new demand into the economy through investing in infrastructure and public services.

The report correctly argues that we should be shifting the focus of the economy away from the financial sector and back to the real economy, where real people produce real goods and services that actually contribute to our collective well being. It highlights the next crisis that is likely to sweep over us quite soon, that of peak oil, rightly emphases the scale and urgency of the threat of global warming, and points out that coping with those threats has to be an integral part of our infrastructural renewal.

However, the report does not sufficiently recognise that this crisis, like all those that have come before, is rooted in a deeper and more fundamental problem than the greed and recklessness unleashed by neoliberalism. The fundamental problem is that of a financial system orientated towards maximising private profit rather than assisting real progress for ordinary people. As a result, many of its proposals rely to a dangerous degree on the goodwill, common sense or long term thoughtfulness of the very groups who have got us into this mess and who will pull the world down round their ears rather than concede power.

What is needed is a programme of infrastructural renewal even more ambitious than that envisioned by the report's authors. Such a programme will require determined government and popular action to end the domination of the market and to use society's resources, including the banks, building societies and other financial institutions and most importantly, the pension funds, for the common good.