



UCL POLICY BRIEFING FEBRUARY 2014

Research

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KEY MESSAGES

- A green economy strategy will address economic vulnerabilities and long-term weaknesses and drive a robust recovery from recession.
- The UK risks losing its current competitive advantage in key areas of innovation and technology without taking steps to foster green innovation.
- The costs of moving to a green economy are lower than supposed - direct costs are often over-estimated, and the pay-offs are under-estimated.
- The green economy refers to the whole of the economy, not just the environmental sectors. There is a crucial role for Government in steering towards a green economy.
- Key recommendations for moving to a green economy are:
 - A green industrial strategy to drive eco-innovation and secure competitive advantage in green technologies
 - Prioritisation of infrastructure projects which ensures that investments are compatible with long-term green economy objectives
 - A new information infrastructure to provide natural capital and material flow accounts for the economy, together with improved corporate reporting and enhanced consumer information.

Greening the Recovery

The report of the UCL Green Economy Policy Commission

Rationale for a green economy strategy

The UCL Green Economy Policy Commission (GEPC) identifies six key points which underpin the rationale for a green economy:

1. A concern for the environment and a recognition that in the long term we have to shift to a more sustainable growth path. Our economy is highly vulnerable to climate change, degraded natural capital and resource constraints, and our wellbeing depends on the quality of the environment and on natural resources.
2. Many of the structural reforms required for a green economy are necessary even without the green imperative. It makes sense to make such structural reforms in a way that drives the transition to the long-term goal of a low-carbon, resource-efficient green economy.
3. There are short-term costs, but these are lower than is often supposed. Empirical evidence shows that the predicted costs of environmental policy have almost always been overestimated in the past. There are also economic pay-offs to environmental policy that mean the net costs may be less than is typically expected.
4. Delay is likely to be even more costly. Failure to act early, and synchronously with cycles of investment and re-investment, is expensive because of lock-in and path dependence. Decisions made today enable or constrain options in the future.
5. The fragility of the recovery also provides a reason for pursuing a green economy now. Whilst the economy is operating below full capacity there is a window of opportunity during which resource costs are low and the added benefits of stimulating directed investment (particularly in infrastructure and innovation) are large.
6. The rest of the world is moving in this direction. Analysis of patent data and global innovation policy suggests that the rest of the world is increasingly oriented towards greener innovation – the UK risks losing its leadership in areas of present comparative advantage.

Information

Adequate, timely and relevant information is essential for the understanding of the state of an economy and where it is headed, but we lack the information about material and resource use that enables economic actors and policymakers to understand and manage the resource and environmental basis of the economy and businesses. We recommend:

- the construction of a system of natural capital accounts to increase understanding as to how and where natural capital should be maintained and augmented, and to act as an interface between the economy and the environment;
- the construction of much more detailed material flow accounts for the UK economy that will track the flow of different materials through the economy;
- an information system for investment and supply chain management through Resources and Environment Reporting Council to develop indicators for resource use and improved corporate accounting, including through confidence accounting;
- improvements in consumer information which should be embedded in policy packages, rather than supplied in isolation.

Enabling policies: macro-economic policy and resource efficiency

The costs of moving towards a green economy are lowest when there are strong signals to investors and to business that the Government is committed to doing so. Macro-economic policy, including environmental tax reform and ensuring that infrastructure and innovation spending is targeted to support a green economic recovery, is crucial to demonstrate policy credibility and stability. We recommend:

- establishing widespread green fiscal reform through a Fiscal Commission for a Green Economy
- reform of carbon pricing in partnership with the EU
- increasing VAT on household energy use
- issuing index-linked policy-performance bonds

We also make a number of specific recommendations at UK and EU level to improve resource efficiency which encompass: economic instruments; regulations; waste and energy efficiency product passports; environmental taxes; green public procurement and eco-design.

Conclusion

Successful policy for a green economy will:

- strengthen the UK economy by renewing infrastructure, stimulating innovation and increasing resource productivity;
- build UK comparative advantage, capability and exports in growing global markets;
- improve the daily environmental experience and quality of life of UK citizens;
- give the UK a leading voice in global political discourse on increasingly important resource and environment issues.

A clear, credible and long-term green strategy can lower risk premiums and galvanise private investment. A national strategy to drive forward investment in resource-efficient, innovative sectors could both restore growth and leave a lasting legacy.

The green economy is moving from a desirability to a necessity. There is a window of opportunity, as the UK emerges from recession, to implement policies which will green the recovery and put the UK economy decisively on a trajectory towards low-carbon prosperity, resource security and environmental quality. The direction the UK economy takes in recovery and the extent to which it addresses its vulnerability to climate instability and resource availability will largely determine whether growth can be sustained for the long-term.

MORE INFORMATION

The report of the UCL Green Economy Policy Commission was launched on 24 February 2014. The full report is available to download from the UCL Public Policy website, www.ucl.ac.uk/public-policy

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