**Going backwards – the retreat from environmental commitments**

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Over the past decade the Conservatives gradually built up a coherent and powerful set of environmental policies. These were part by design, as the Conservatives sought to contest the environmental vote against the Liberal Democrats and Labour, and part as a largely unintended consequence of BREXIT. It turned out that the major areas where EU law imposed itself on the UK were in agriculture and the environment, and hence BREXIT forced the government to address these.

The result of this engagement was three milestone pieces of legislation: the Agriculture Act, the Environment Act, and before these the Net Zero amendment Act.

The first two are explicitly Michael Gove's achievements, and the third was pushed hard by Theresa May. The Conservatives could as a result reasonably claim to be "green".

The change of Prime Minister has been accompanied by an explicit GDP target, and an overwhelming emphasis on GDP growth. The setting of GDP targets is all very "Chinese" and sits uneasily with the Conservative scepticism about the ability of governments to deliver on such targets. Liz Truss and Kwasi Kwarteng have pinned their masts to the theory that lower taxation leads to higher GDP growth, and a version of what has been known as "trickle-down economics" – that lower taxes for the better-off will lead to greater benefits to the poorest, and greater than a more distributional fair approach might provide. Liz Truss dismisses "distributionalism" and identifies all those who oppose her specific policies as being "anti-growth".

In the pursuit of the 2.5% GDP growth target, the three pillars of Conservative environmental policies are to be "reviewed" with a view to weakening and unwinding some of their key features. In addition, the PM's ambition to "end EU red tape" is to be pursued by removing the transposed legislation, which contains a whole host of environmental protections. Further, the plans for new "investment zones" and further loosening on planning are all intended to weaken environmental protections, including those explicitly promised to be protected by the BREXIT campaign in the EU

referendum. Having painstakingly built up a green reputation, it has taken less than a month to seriously dent it. Credibility is hard to achieve and easy to dissipate.

Worse, the new hostility to the environment has also undermined the very objective that this retreat from environmental policies is argued to further. It is particularly notable that each of these three Conservative Acts was advanced on the basis that they separately and in combination ***increased*** economic growth, and that this argument was explicitly used by David Cameron, Theresa May, Boris Johnson as PMs and by Michael Gove. Contrary to what the PM and the Chancellor have stated, it is they who are "anti-growth".

It would therefore be a mistake to see what is going on as a "tweak": it is a fundamental change of direction with very serious consequences if it is actually carried through (about which there must be serious doubts). Even if the PM and the Chancellor fail, the damage to the Conservative Party will be lasting. These new policies are "anti-green" and "anti-growth".

## 1. Anti-growth

Let's start with the relationship between these three pillars of environmental policy and economic growth. The first point to make is that there is a huge gulf between GDP growth and sustainable economic growth (the latter is the stated objective of the Treasury, but not one it has seriously pursued). Sustainable economic growth is driven by advances in technology and ideas, and investment, and it takes serious account of the assets that will be passed on to the next generation. GDP growth can be boosted by increased spending now, on borrowed monies, at the expense of the next generation. Such short-term "boosterism" is not sustainable, and hence it will not be sustained. Arguably, the UK has suffered from lots of short-term boosterism initiatives, without paying attention to the fundamentals of the economy, and in particular its core system assets. In concentrating on things that artificially boost GDP in the short run, the PM and the Chancellor will impose great cost to the economy over the medium term (and a greater burden of debt for the young to bear).

To the extent that there is an orthodoxy for the PM and the Chancellor to attack, and to which the Treasury has been a party, it is the sort of ultra-Keynesian ideology that the

new GDP target promotes. Both are tilting at their own windmills. Spend now, hoping that a Keynesian multiplier will produce its magic (or in the PM's terms, "trickle down"), and regarding debt as something that will either pay for itself in assumed higher growth or simply something that does not much matter. If the Treasury has a failure for which it should be criticised, it is that it has been complicit in decades of the UK living beyond its means, the sort of fiscal irresponsibility that Conservatives are supposed to be against. (Margaret Thatcher and Nigel Lawson would have taken a very different view.)

In tackling the underlying poor performance of the UK economy, the PM and the Chancellor are right to focus on productivity, though they show profound ignorance as to the causes of the malaise. It shows up in their short-termism – almost all the causes of productivity growth are longer-term, and will take much longer than their 2.5% GDP target to materialise. The policy recipe is not rocket science; it is well known. The longer-term measures should include a well-funded and well-supported education system, serious investment in research, and proper capital maintenance and enhancement of the core systems (in energy, water, transport and communications) and of the natural capital that underpins all of them (and us). It is about savings to support investment, about ensuring friction-free trade, and about living within our means, not mortgaging the future.

Building a few roundabouts and widening a few roads is not going to improve matters much. Neither is undermining environmental protections going to help. If the government grasped the sad state of UK infrastructure, it would be launching a properly funded major infrastructure investment programme in the core systems, including natural capital, and realise that this will not happen through a laissez-faire approach, and that it has not been delivered after 30 years of privatisation. Nobody decides to invest in the UK because of its infrastructure. Cutting taxes and putting more money in the hands of the better-off will not get infrastructure built. For this, the state has a crucial role, something understood by Cameron and George Osborne, and by Johnson.

It is important to recognise that the dire economic position in which the UK finds itself is the result of multiple failures. Quick fixes will probably make it worse. The biggest anti-growth policy so far has proved to be BREXIT, whatever the government says about "Remainer deniers". The PM and the Chancellor cannot point to any significant gains at

all from BREXIT. As exporters have discovered, throwing grit into the wheels of trade with our major export market of around 500 million people cannot make things better. The costs to the environment are about to be revealed too. BREXIT was bound to make trade worse; there was no inevitability about making the environment worse too.

Whatever one's views on sovereignty and the wider political questions, it is hard for anyone to seriously maintain that BREXIT has done anything other than cause a widening of the trade deficit, adversely affected labour supply, and raised costs. The trade deficit – at over 8% of GDP – is greater than previously experienced except during two years in the Second World War. There is nothing "orthodox" to point out, as the Office for Budget Responsibility (OBR) predicted, that GDP is a lot lower as a result of BREXIT. True, as the Chancellor maintains, it will take decades for the full effects to be seen, but then the Chancellor's growth target has nothing to do with even a decade's time. It is ludicrous to claim that to be critical of BREXIT is to be anti-growth. Rather, the challenge is for the Brexiteers to explain how it could possibly increase economic growth, and especially GDP growth, and why it takes the downgrading of environmental protections to offset some of the damage.

## 2. Anti-environment

It is in this confusion about what growth is and what causes it that the PM and the Chancellor are launching their assaults on green policies, and undermining the three great pillars the Conservatives put in place. In reviewing all of them, the new PM and the Chancellor clearly think the current post-BREXIT, Conservative green Acts are positive obstacles to economic growth, and that, in "fixing" them, growth will be higher. Let's examine each in turn.

### (i) Net zero

On net zero, a review has been launched, fracking has been promoted, new offshore licensing has got the green light, whilst DRAX is on track to get yet more subsidises. The obvious question to ask is: after the flurry of reviews, ten-point plans and net zero strategies under Johnson, why is a review of net zero needed at all to add to the announced new oil and gas policies? The answer lies with the legacy of the Net Zero Group, and the sceptical new Secretary of State at the Department for Business, Energy

and Industrial Strategy (BEIS). It can be seen in the new "Growth Plan", which finds space for agriculture and an Alcohol Duty Review, but no space for even nuclear and offshore renewables.

The net zero review is to be led by someone who takes climate change very seriously, and the government will probably not want to drop its net zero targets for 2035 and 2050. But there is a world of difference between having targets and taking measures to achieve them. Already by mid-2022, the Climate Change Committee was lamenting the lack of progress. Since then very little has happened. Where the Johnson government did put emphasis on nuclear, the "deal" on Sizewell C has taken time because of the complicated post-BREXIT relationship between France and the UK, and especially between Truss and Kwarteng on the one hand and Emmanuel Macron on the other. The PM has U-turned on her outrageous statement during the leadership election campaign that she was not sure whether she trusted Macron. But the damage has been done even if the deal is now signed, not least to the Conservative Party's reputation for professionalism in international relations.

The terms of reference for the net zero review are a big give-away. The terms raise the issue of timing and the case for slowing down now. It is an argument that Steve Baker advanced at the Conservative Party conference. "Now is not the time" is a very dangerous argument, but it is relatively easy to take the foot off the pedal now, whilst claiming to be fully committed to net zero – eventually. It is as dangerous as committing to targets that will not be achieved, such as Labour's 2030 net zero for power (even the Conservatives' 2035 target is highly unlikely to be achieved).

The net zero review would be a good idea if it dealt with all the stuff that has been pushed under the carpet in energy markets for the last decade. As I spelt out in the *Cost of Energy Review*,[1] net zero means lots of intermittency, and security of supply needs to be maintained for the transition. That does mean being serious about the role of gas, and not just hoping – or worse, assuming –it will go away. Contrary to Kwarteng's smooth reassurances back in January as Secretary of State at BEIS that there are no

[1] Helm, D. (2017), "Cost of Energy Review", Independent Review for the Department of Business, Energy and Industrial Strategy, October.

risks to security of supply, there clearly are, and they will always come first for any government. Nor has the nuclear side been properly thought through. Lots and lots of wind means that the new nuclear will be rendered intermittent too. That needs some thought – and if the nuclear economics depend upon it being baseload, it will have to do something with its power generated when the wind is blowing. If the answer is hydrogen, that raises a host of co-investment decisions, as well as access to water for hydrogen production. This all takes strategy, planning and state involvement.

The immediate impact of the review on growth is to slow everything down, not to accelerate investment. Pausing on the Energy Bill risks the same inertia that has characterised attempts to legislate since 2017. Why hurry up investment if you don't know what the outcome of the latest review is and are not clear about the Conservatives' 2035 target and Labour's new 2030 goal. Reviews tend to beget reviews, so there is the added uncertainty about what review comes next.

In the meantime the PM and the Chancellor might take a look at the rising interest rates and falling exchange rates – exacerbated by the ill-fated mini-budget – and work out by how much the costs of the 2035 target have gone up. Indecision and reviews add to the woes by increasing the costs of debt and equity. And then there are all those magnets and minerals for the wind turbines and the car batteries – all imported and much more expensive now than they were a few weeks ago. The mini-budget has been spectacularly damaging to investment in the very things the PM and the Chancellor want to promote to achieve their growth target. BREXIT plus the mini-budget are examples of anti-growth policies when it comes to renewables, nuclear and the energy transition.

This muddle means that the contribution of energy to the growth target is going to be a lot less than the PM and the Chancellor either assume or aspire to. They have made that contribution less than it otherwise would have been. No wonder the PM does not want King Charles to go to COP27.

### (ii) Agriculture

On agriculture, a return to the old CAP payments has been widely leaked in the name of promoting agricultural productivity. This is one of the main examples that the PM and the Chancellor have highlighted as contributing to their growth target, as trailed in the

"Growth Plan". As with the review of net zero, it has caused major uncertainty – notably to those farmers who have been participating in the ELMS pilots and been busily identifying the public goods they could provide – raising the costs and delaying the delivery of the outcomes.

The PM and the Chancellor are right to highlight low agricultural productivity, but quite wrong to think that a return to the past will increase it. Yet, even if it did, it will make almost no difference to economic growth. Agriculture is 0.5% GDP, so even if productivity went up, say, an astonishing 10% because of their change of policy, it would make a negligible difference to overall GDP performance. (And the government should stop muddling up agriculture and agricultural subsidies to the farmers with the food supply industry.)

To see why this is the case, ask yourself a simple question: how would moving back to paying farmers to own land improve productivity? And ask yourself a further question: why did years under the CAP produce such poor productivity? If the government wants to improve the outcomes, it would do well to start with the question of labour supply, and what cheap labour did to the incentives to invest in capital and in particular in robotics and new digital technologies.

Of all the sectors the government is concerned with, agriculture is the most long-term. GDP is an especially inappropriate measure to use for a growth target in agriculture. Sustainable economic growth starts with assets and stocks, not flows, and in agriculture it is the state of the assets that matters – particularly the soils. Sustainable economic growth takes a wider view than GDP, and includes the important aspects of carbon, biodiversity, water quality, and mental and physical health. These are the sorts of things many Conservatives care about. Many of these are public goods, things the market will not provide on its own. Food is a private good. The perverse economics of agricultural policies pays farmers to produce private goods, pays farmers to pollute (as opposed to the polluter-pays principle applied everywhere else), exempts farmers from fuel duty taxation (red diesel), and provides a host of other tax concessions.

The bizarre consequence is that farmers are, in effect, subsidised to emit and pollute, and then other sectors have to mop up the carbon and chemical deficits. Water companies have to clean up the water, whilst key parts of the economy are damaged –

from Poole Harbour to the major rivers and estuaries. The tourist and leisure industries are much bigger parts of the economy – and hence GDP – than farmers.

The government has no answer to the question of why not providing the public goods with positive economic values is good for "growth", except as measured by GDP, and then only in the very short term. An economy operates within the context of public goods, the systems that underpin all the businesses and citizens in the economy. Agricultural pollution, and deficient natural and infrastructure systems are very much the core reason why productivity is undermined.

The NFU is keen to point the finger at food security and argue that the invasion of Ukraine is a reason to increase food production in the UK. There may be many reasons why food production should rise, not least because of the carbon footprint of imported food. Yet the government is actively undermining some of these incentives for greater food production in the UK. The PM is particularly keen on "free" trade and hostile to carbon border adjustments. The farmers rightly point to the madness of importing beef from Brazil raised on land cleared of rainforests, and they rightly point to the level-playing-field arguments in respect of the meagre trade deals done so far. Almost all trade deals come down to agriculture, and if the government wants to improve food security and increase home food production, it should look to revising sharply its policies on free trade, and incorporating the public goods into ELMS along the planned lines. The current approach is anti-growth.

If food security and production really matter, there is also a question about the non-food uses of "agricultural land". The NFU is less keen to point to the large-scale game and other activities, and the fact that these received money under the CAP. It might also think again about what exactly the biomass industry is doing – and indeed what its carbon footprint is. For example, growing maize for anaerobic digesters is not producing food, typically it is very damaging to soils, and results in a lot of soil and other carbon emissions.

### (iii) The wider environment and the Environment Act

The third pillar of post BREXIT Conservative environmental policy is the landmark Environment Act. This embeds the *25-year Environment Plan*, takes a natural capital approach, and paves the way for the setting of statutory targets.

The PM and the Chancellor are in the business of weakening these statutory targets and downgrading the 25-year plan. These are serious mistakes that damage economic growth. But the main action is elsewhere, on the EU transposed legislation and the repealing of – or taking the powers to repeal – key environmental protections, like the Habitats Directive, claiming that these inhibit the gaining of planning permission. The obvious answer is: of course they do, they are designed to protect land from certain types of inappropriate development. Signalling a willingness to relax planning rules, and to build on the green belt, is not only potentially undermining the environment, but also damaging economic growth.

It is a great myth promoted by builders and their agents that they cannot get enough land. On the contrary, the land banks with permissions that they already hold are considerable. What builders really mean is that they cannot build on green environmental sites where they will get a premium on house prices. Land-use planning exists for a purpose, even if it is very weak. So-called 'executive houses' in leafy green areas of course attract a premium, precisely because the new owners want to consume nature. But the aggregate effect is devastating. There are a good reasons, for example, why Port Meadow, a flood plain to the west of Oxford, still exists, as does St James' Park. They have been protected from the obvious attraction of builders to build on them.

To this is added the silly argument that since much of the green belt is not "green", it should lose its protection. To this, the answer is: make it green because it is on the edges of cities that the natural capital has the highest economic value to the citizens.

## 3. What to do?

If the PM and the Chancellor are seriously interested in economic growth, they would embrace the net zero agenda, embrace the public goods for public money argument to enhance the value of agriculture, and they would get serious about proper land-use

planning. If, in this spirit, the EU laws were replaced with something better, then the repeal process has a purpose.

These are the politicians who embrace BREXIT and boast about it. It is worth recalling that the leaders of the BREXIT campaign explicitly promised that there would be no slacking on environmental protection as a result of BREXIT, and, further, that the environment would receive greater protection. What is going on is the reneging of these clear commitments. Not only are the measures under way on the three pillars contrary to the 2019 election manifesto, but they are contrary to some of the central arguments of the BREXIT promoters.

The net result to economic growth will be negative, and great economic opportunities will be missed. It is foolish even in the government's own terms.

For those lobby groups egging the government on to go slow on net zero, resume fracking, to move back towards the CAP, and to speed up housing developments by rolling back the environmental protections, they should be careful what they wish for. On net zero and fracking, a few months of the PM, Chancellor and BEIS Secretary of State's enthusiasms are not going to do them much good (and fracking is widely uneconomic in its own terms); on agriculture the NFU leaves itself wide open to the Treasury cutting the aggregate subsidies since there will be little rationale for their preferred way forward other than increasing incomes, and there will be no public goods defence; and on planning the housebuilders are opening themselves up to a development land tax.

As with the 45% tax cut, what the PM and the Chancellor should do is at least three more screeching U-turns. The PM and Chancellor are on the wrong side of the growth arguments. They are undermining growth in the development of low-carbon technologies; undermining the productivity of agriculture; and undermining the economic growth benefits that come from enhancing natural capital.

The PM and the Chancellor cannot admit this, so they will probably plough on. The consoling point is that they may not get very far in the next 24 months. They will, however, do a lot of damage to the cross-party consensus that has emerged since BREXIT. They will increase the cost of capital and raise costs. All of this was

spectacularly achieved in the ill-thought-out mini-budget. It remains to be seen whether the rest of the Conservative Party wants to be serious stewards of the natural environment and serious about integrating the environmental policies into the economy as a whole – as Cameron, May and Johnson (and Gove) set out to do. The real argument is a fight for the soul of the Conservative Party between a right-wing set of sceptics about the importance of green belts, nature and the climate, and the Gove agenda.

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Net Zero: How we stop causing climate change

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