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Investing in the Future: Why Europe Needs a Green New Deal

An interview with Ann Pettifor
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In early 2019, New York Representative Alexandria Ocasio-Cortez released her plan for a Green New Deal, skyrocketing the proposal for ecological transition into the public conversation. Yet the Green New Deal has a longer history across the Atlantic. We asked Ann Pettifor, one of the architects of the Green New Deal, about its conceptual basis and what it would mean to have one implemented in Europe.

Green European Journal: Everyone is talking about the Green New Deal. You are one of the thinkers behind it. How did it come about?

Ann Pettifor: In 2007, we convened a meeting of environmentalists and economists to discuss the link between the financial system and climate breakdown. We met in the evenings in my flat in London: I would cook risotto and they would bring wine. Our conversations became a report, the Green New Deal, that was soon picked up by the United Nations and that Barack Obama mentioned in his campaign. But still, it never really took off.

Then, 18 months ago, a group of Americans visited London to meet Jeremy Corbyn's advisors and they knocked on my door. They said they had a candidate standing in the New York primaries. They said their candidate had no chance of winning but that they wanted policies for her campaign. So we produced a new document, again called the Green New Deal. Alexandria Ocasio-Cortez based her campaign on it and went on to win against the odds. From then on, it's been a shooting star. Everyone is talking about the Green New Deal and everyone has a different idea of what it is.

What is the Green New Deal then?

The key idea is that we cannot fix the ecosystem until we fix the economic system, and we cannot fix the economic system until we fix the hyper-globalised financial system. There is a direct line between the gush of credit issued by banks and the current economic system based on ever-expanding consumption, production, and, therefore, greenhouse emissions. The banks are not concerned about how the money they supply is spent or with what effects. In the three years after the 2015 Paris agreement, America's biggest bank, JP Morgan, lent 196 billion dollars to companies the fossil fuel industry. Cutting the financial system's sustenance of climate change through structural change is at the heart of our Green New Deal. Behavioural change, like some Greens argue for, is not enough.

For the democratic health of the Eurozone as well as the realisation of the Green New Deal, the architecture that puts central banking beyond parliamentary accountability and that prevents governments from borrowing to invest must be transformed.

Speaking about structural changes to the financial system, we have a new President of the European Central Bank (ECB). What should be the role of central banking in your vision?

The ECB epitomises the problem with the financial and monetary system. The ECB is designed to be beyond the reach of democratically elected governments and their peoples. Nothing can be done with the ECB until that is changed. For the democratic health of the Eurozone as well as the realisation of the Green New Deal, the architecture that puts central banking beyond parliamentary accountability and that prevents governments from borrowing to invest must be transformed. In an extraordinary recent editorial, even the Financial Times was at pains to stress that it is the job of democratically elected politicians to "steer the fiscal-monetary mix", not central bankers. The reason both social democracy and Christian democracy are collapsing in Europe is that they have gone along with the notion that decisions should be taken out of the hands of politicians.

Do you advocate direct monetary financing of states by the central bank?

No, I am not in favour of direct monetary financing by the central bank. Nevertheless, the ECB should manage the financial system, interest rates, and the value of the currency in the interest of the states and their taxpayers – not, as now, just in the interests of the private finance sector. Because it is states and their taxpayers that grant the ECB its power and authority. If the state needs money, the central bank should help to mobilise that finance – just as a commercial bank helps an entrepreneur mobilise finance. However, the mix of fiscal and monetary tools matters as much as the overall monetary policy stance. In most economies, that balance is tilted heavily to the monetary side with unfortunate consequences. Economically, ultra-loose monetary policy has inflated asset prices and may be slowing productivity growth by keeping uneconomic businesses alive. Politically, it has put central banks under enormous pressure from banking lobbies, hard-money ideologues, and from those in creditor countries who think low interest rates are a way to bail out profligate governments on the sly. In truth, central banks should not be blamed for loose monetary policy. As long as governments are not willing to fulfill their side of the bargain, and expand on the fiscal side, central bankers are necessarily obliged to try and make up the shortfall in demand.

How does financing the Green New Deal come in?

There are essentially just two ways of financing investment in the Green New Deal, as there are for any government investment in infrastructure: by accessing new credit and by drawing on existing savings. Credit is available to both the government and private sector from the traditional banking system. Commercial banks provide credit to individuals and businesses but can also lend to the government. During the Second World War, when significant funding was needed, high street banks helped pay for the British war effort by lending to the government. They received government bonds in exchange for that credit. At the level of the whole economy, the ECB provides credit, both directly and indirectly, to its clients: banks, financial institutions, and also governments. This process, dubbed 'quantitative easing', has helped EU governments finance spending at low cost, and has brought down rates of interest for all borrowers at the same time.

Governments could invest in creating jobs in essential green and renewable energy, transport, and land-use systems, while simultaneously creating a safe place for pensions and savings. The more jobs are created, the more income both for the employed, but also (in the form of tax revenues) for the state. That is the way to balance the books!

Alternatively, a government committed to a Green New Deal could draw on existing savings held by individuals, but most importantly, by banks, pension funds, insurance companies, and other savings institutions – including National Investment Banks. What this means is that a Green New Deal for the European Union costing at minimum around 100 billion euros a year could be financed by a government using a judicious mix of credit and savings. Governments could invest in creating jobs in essential green and renewable energy, transport, and land-use systems, while simultaneously creating a safe place for pensions and savings. The more jobs are created, the more income both for the employed, but also (in the form of tax revenues) for the state. That is the way to balance the books!

You know the classical objection: EU countries have high debts and taking on yet more debt will provoke a crisis in market confidence.

European countries are heavily indebted because the global financial crisis smashed the economy and caused massive unemployment, especially in Southern Europe. That has lowered incomes across Europe – and simultaneously tax revenues. Furthermore, the crisis both lowered income and deflationary conditions made it hard for the private sector to borrow to invest and produce new income. If you want to fix the debt, then the government should invest and employ people. Only when people are employed will they generate income, pay taxes and thereby help balance the books.

The state has to invest. If you borrow to pay for basic services, as many EU countries have done, and at the same time impose austerity and cut investment in new jobs, your system is going to become unbalanced, building up large debts without any means (income) to repay them. Right now, it is as if Europe is borrowing money to pay the rent.

Looking at a concrete scenario, Italy is in debt and still below pre-2008 output. Should the Italian government argue the case for more debt specifically for productive green investment and, on that basis, justify a violation of the Maastricht criteria?

Absolutely. The Italian government should be investing to protect the people of Italy from the threat of climate breakdown. There will be droughts and floods; the people have to be mobilised for the enormous amount of work needed to protect the security of the Italian nation. Today the Italian government sits on its hands, implying it cannot do or afford anything. Its's crazy.

What would that look like in practice? Ilva, Europe's largest steel plant located in the south of Italy, was recently bought by ArcelorMittal. The company now wants to pull out due to the high costs of guaranteeing basic environmental and health standards. How would a Green New Deal cross with industrial policy in this case?

The private sector will not take the risk of transforming old polluting industries while transferring and retraining the workers and ensuring they use their skills for more sustainable ends. Only the state can, and will, take that risk. The private sector, as Marianna Mazzucato says, is a timid mouse when it comes to risk-taking. The state is the roaring lion. The state should have a plan for what needs to be done to rebuild our energy and transport sectors. In the UK, steelworkers are worried that they will end up like the coalminers abandoned by Margaret Thatcher. That is not the Green New Deal plan. Workers in the steel industry have extraordinary skills, which can be redeployed to address climate breakdown, for example by designing and building flood defences, and recycling steel for sustainable use.

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The question of jobs is always on the table when we discuss ecological transformation. Coupled with technological change, many people predict a low-jobs future and advocate a shorter working week and basic income. You instead seem to think that they'll be plenty of work.

In my view, we need to substitute labour for carbon. Britain imports green beans from Kenya, even though they could grow plenty in the UK. In doing so, Britain uses Kenya's scarce water, exploits its underpaid labour, and pollutes the world by flying the vegetables in. In the future, Britain will need to grow its own green beans. Robots, universal basic income, and the end of employment are the delusional dreams of digital capitalists who want workers that they need not pay and consumers with just enough money to buy their services. A green economy is going to be more labour intensive and more self-sufficient than a carbon economy. It will be a localised, slow food type of economy that will provide a much richer life and restore our common wealth. It's wrong to say it'll be a low employment economy. We are going to substitute human energy for fossil fuel induced energy.

There were some attempts in 2008 to regulate the financial system but they failed. Obama, who won the US presidency right at the heart of the financial crisis, even surprised the banks with how accommodating he was. Why should it be different now?

The Great Financial Crisis stunned the Left in Europe and the US. Many had neglected to understand the extent to which, thanks to neoliberalism, all economies are internationalised (globalised) and national economic policy-making is constrained. Europe's elected governments exercise little policy autonomy. Hence the frustration with politicians by the public and the right-wing insurgencies against "elites" across the Eurozone. Whether we like it or not, most right-wing populist governments are anti-globalisation. Social democrats have been pro-globalisation. The Right does not have answers, and the Left also has no answers to the problem of globalisation.

The failure of the Left to understand the internationalised system produced the failure to reform that system after the crisis. As a result, the globalised financial system consolidated its position. Today business is better than usual for globalised financial capital because, unlike during the pre-crisis era, speculation by the world's big financial institutions is "guaranteed" by governments. This has led to a massive increase in private (especially corporate) debt, inflated asset prices, and a rise in inequality. When the next crisis happens, we have to be ready. It will happen; the global economy is now more unbalanced than it was back in 2007. The Left and in particular the Greens in Europe need to have an alternative plan ready – an alternative strategy and an alternative architecture for Europe and the international system. That plan is the Green New Deal.

Ann Pettifor is a British political economist and author. Her work focuses on the global financial system, international finance and sustainable development. Her books include *The Coming First World Debt Crisis* (2006), *The Case for the Green New Deal* (2019). She received the Hannah Arendt Prize in 2018.

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