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Insidetrack

Transforming capitalism

Inside Track is the journal of Green Alliance. It provides a platform for views on environmental politics and updates on Green Alliance's work.

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Comment

> “The social and environmental challenges we face are of such gravity that they will need much more collaborative and creative solutions than the belief that elbowing others out in the pursuit of self interest is the best way to thrive.”

As the Libor scandal bites, hard on the heels of earlier financial crises, the number of stories about irresponsible capitalism grows. For some it's a personal tale of a banking system that has taken public money yet refuses then to lend to their struggling small business. For others, it's a more global story, such as prospecting in the Arctic even as the summer melt reaches record highs. This version sees, hears and speaks no evil of the consequences of unrecognised environmental externalities. The common story, from local to global, is of a form of capitalism which values higher returns today over an approach that yields potentially lower but more sustainable returns.

As the writers in this issue make clear, there are moral and practical dangers arising from growing public pessimism. We can ill afford the mounting scepticism in the ability (and will) of our public and private institutions to tackle these issues. The social and environmental challenges we face are of such gravity that they will need much more collaborative and creative solutions than the belief that elbowing others out in the pursuit of self interest is the best way to thrive.

Trust that private entities can be a vehicle for public good is at an all time low, and urgently needs rebuilding. Jesse Norman's call to rein in excess and rediscover the language of public value is a vital prerequisite to regaining the moral authority to act. The role of government in setting an appropriate regulatory framework and punishing illegality is also vital, as Ed Miliband makes clear. Markets are a human construct with permissions and sanctions set by the society of which they are part and government has a legitimate role in determining and controlling these boundaries.

Finally, as David Blood says, the role of the capital markets will continue to be crucial to any economic transformation to a more sustainable economy. We cannot do without banks or bankers, but we certainly can do without the hedonistic culture of rent-seeking that has sullied today's institutions.

Sophia Tickell, Green Alliance trustee

An active role for government

Ed Miliband argues that government should be an agent of change towards a more responsible, sustainable capitalism

The world economy is struggling to recover from a crisis caused by inadequately regulated financial activity. Governments are dealing with deficits that are too high and growth that is too low. And, long before the credit crunch, people in the middle were struggling with squeezed living standards. For too long, economies have encouraged wealth creation focused on short term returns which failed to reward productive behaviour and skewed distribution towards the top. It is a problem that requires a fundamental re-examination.

But there is a further, deeper crisis underlying this. This is the crisis of the global environment which is now rebounding on the real economy. Resource scarcity is affecting prices, for example failed crops in one part of the world lead to rocketing food prices in another part. Energy prices have continued to rise despite the global slowdown. These are resource scarcities right at the heart of the global economy.

The truth is that the economic and environmental crises have a lot in common. They have a common cause: markets without proper regulation; a common victim: working people who suffer the consequences of a problem they did not create; and a common solution: strong and active government that does not leave people to their fates.

It's at these moments of crisis that we need to think about what kind of society we are and what kind of country we want to become. Britain needs an economy that is more resilient, more genuinely competitive, more focused on the long term and one that people feel is fairer, an economy that works for working people. Not only do we need growth,

> "Sustainability is about the politics of hope and the human endeavour to create a better legacy."

we need growth that is inclusive and sustainable. It is not a choice between creating jobs and saving the planet. We have to do both.

Nor should we accept the lazy assumption that we must choose between prosperity and sustainability. When I was secretary of state for energy and climate change the mission to create jobs through clean energy and low carbon manufacturing was at the heart of my plans. At a time when the British economy is desperately in search of new sources of growth, the potential for a green industrial revolution is huge. This is the time to stand proud and declare that we want to lead the world in the low carbon, resource efficient technologies of the future. The countries that make the leap first will be the successful economies of this century, exporting technology around the world to cities seeking cleaner air and lower emissions.

But this will require a much more active role for government. Almost all the technological revolutions that have spurred new waves of growth in the past have sprung from government activity. Investing in the infrastructure for a low carbon economy will both kick start the growth that is currently missing and make our economy resilient to price shocks in an age of scarcity. It is governments which set the low carbon targets and correct market failures; and the degree of support for policies shown by governments is a major part of perceived risk for investors. To attract the investment we need, governments must cover that risk and commit to a clear goal of decarbonising the power sector by 2030, as the independent Committee on Climate Change has recommended. We need to create instruments that will give the private sector the confidence it needs to invest in new low carbon sources of energy. This is, in principle, what the Green Investment Bank is for, but investors will not be fooled by a bank without proper powers.

> “To attract the investment we need, governments must cover that risk and commit to a clear goal of decarbonising the power sector by 2030.”

Making markets work more efficiently can be our ally in supporting both our long term national interest and the current financial interests of individuals. That is why we also need to reform our energy market. Just six companies supply more than 99 per cent of consumers' electricity and gas. They also generate two thirds of the country's electricity. This stops the market from being open. One result is that when wholesale prices go up, so do people's bills. Yet, when wholesale prices come down, too often bills do not. This is caused by a lack of transparency in the market and the fact that having just a few, large, dominant firms means the price is never forced down. The market needs to be opened up to new entrants. We are looking at ways to encourage all energy companies to sell the power they generate into an open pool, so that any retailer can buy it, thereby encouraging more competition.

Energy bills are now one of the biggest costs that families face, but the complexity of the various tariffs on offer, currently over 400, means that 80 per cent of people are paying too much for their energy. Elderly customers often find it hard to shop around and make the market work for them. That is why a Labour government would ask the energy companies to charge all customers over the age of 75 the cheapest tariff for gas and electricity, enforceable by law.

We need growth to serve a purpose: raising aspirations, improving the quality of life, and passing on a better inheritance to the next generation. Sustainability is about the politics of hope and the human endeavour to create a better legacy. People are aware of the risks and opportunities facing us. Over half a million people signed a petition against the government's plans to sell off our forests. Even more have joined the Fish Fight campaign lobbying for an end to the disgraceful practice of discards and calling for a sustainable fishing industry. Millions tuned into Frozen Planet to watch Sir David Attenborough's plea to save the Arctic, a cause whose time has come.

> “The countries that make the leap first will be the successful economies of this century, exporting technology around the world.”

This is something that goes to the core of Labour's values of fairness, equality, and social justice. The great Attlee government was not just about the National Health Service and creating a post-war economy. It was also the government that legislated for our National Parks and to protect the diversity of our countryside. From ancient woodlands and wildlife rich wetlands, through to community orchards and local parks, there are some things that provide a value that cannot be captured by the free market. Times have changed, but the principle remains the same: markets have limits. The campaign against the forest sell off showed that the public gets this, as did opposition to the government's planning reforms. Rather than being a barrier to growth, I see the environment as a source of inspiration and opportunity to create long term sustainable jobs, globally competitive businesses, a fairer distribution of resources and wealth, and to reduce inequalities.

The environmental crisis poses a big challenge to our politics because it is marked by a distance between the generation that needs to act and the generations that will feel the greatest benefit. Bringing about change requires government to play a greater role in making markets work to deliver the best possible outcome.

Of course, if government was the only agent for change, a shift towards a more responsible, sustainable capitalism would be far harder.

I will not deliver change alone but by building a coalition of business leaders from companies large and small, politicians, NGOs, social entrepreneurs, investors, employees, consumers, citizens, and trade unions. Such coalitions come along rarely in politics but when they do they make real change possible, driving out old orthodoxies and establishing new ways of conducting our lives together.

The job of politicians is not just to put forward some of the ideas that can contribute towards creating a more responsible and sustainable capitalism, it is to help build the coalition for change that will support and make these changes happen in practice.

The Rt Hon Ed Miliband MP is leader of the opposition

Thinking long term

David Blood describes five transformative actions, set out by Generation Investment Management, necessary to accelerate the transition to sustainable capitalism

The challenges facing the planet today are unprecedented and extraordinary: climate change, water scarcity, poverty, disease, growing inequality of income and wealth, demographic shifts, trans-border and internal migration, urbanisation and a global economy in a state of constant dramatic volatility and flux, to name but a few. While governments and civil society will need to be part of the solution to these massive challenges, ultimately it will be companies and investors that will mobilise the capital needed to overcome them. To address these sustainability challenges, Generation Investment Management (Generation) has released a white paper highlighting the need for a paradigm shift to a more sustainable form of capitalism. The paper presents five key actions to accelerate the transition towards sustainable capitalism by 2020.

We have often said the market is long on short and short on long. Yet, remarkably, even after enduring the global financial crisis, caused in significant part by short term, unsustainable strategies and actions by both companies and investors, many of us are still content to embrace short termism in nearly all aspects of our lives. From investing, to living beyond our means, to relying on instant opinion polls and tolerating a political discourse based upon sound bites, tweets, and 30-second TV commercials, we focus far too frequently on instant gratification and immediate results. As a result of this short term perspective we are, in economist Herman Daly's prescient phrase, driving our economies and our planet into liquidation.

Before the crisis and since, we at Generation, and others, have called for a more long term and responsible form of capitalism, what we call 'sustainable capitalism'. Sustainable capitalism seeks to maximise long term economic value creation. It explicitly integrates environmental, social, and governance (ESG) factors into strategy, the measurement of outputs and the assessment of both risks and opportunities. Sustainable capitalism encourages us to generate financial returns in a long term and responsible manner, and calls for internalising negative externalities through appropriate pricing.

> "Even after enduring the global financial crisis, caused in significant part by short term, unsustainable strategies and actions by both companies and investors, many of us are still content to embrace short termism in nearly all aspects of our lives."

The discussion around the business case for sustainability has not been short on words but the follow through has been short on actions. Asset owners and fund managers with US$30 trillion in assets under management, which is approximately 20 per cent of the world's capital, are signatories to the UN Principles for Responsible Investment (UN PRI), a network of international investors who commit to "incorporate ESG issues into their decision making and ownership practices and so better align their objectives with those of society at large." If the majority of those assets were actually shifted into truly sustainable investment models, the effect would be dramatic and would signal that sustainable capitalism was entering the mainstream.

Since its inception in 2004, Generation has been an advocate of the mainstreaming of sustainability in financial markets. Unfortunately, we believe that global progress towards this effort has reached a plateau. This is because of a number of factors, including a widely shared failure to rigorously make and reinforce the economic case for sustainable capitalism.

For that reason, our white paper seeks to re-energise the discourse around sustainable capitalism, refine our arguments and, thus, make a stronger and even more persuasive economic case.

In the paper, we present, discuss and prioritise five ideas which we believe have the potential to accelerate the transition to sustainable capitalism by 2020. We recognise these ideas are not exhaustive and that they are necessary but not sufficient to achieving our goal. They are:

Identify and incorporate risks from stranded assets

Stranded assets are those with a value that would change dramatically, either positively or negatively, under certain scenarios such as a reasonable price on carbon or water, or improved regulation of labour standards in emerging economies. Stranded assets have the potential to result in significant reductions in the long term value, not just of particular companies but of entire sectors, ranging from oil and gas to pharmaceuticals. As a result, there is the potential for 'stranded businesses', a prospect which seems to be giving many people an interest in maintaining and defending the status quo and slowing the transition to more sustainable models.

Efforts to prevent progress on this front are as overt as lobbying for favourable policy and as covert as financing inaccurate, pseudo-scientific 'studies' on the climate crisis, with the aim of creating false doubts about the reality the world is facing. Until there are policies that establish a fair price for widely understood externalities, academics and financial professionals should strive to quantify the impact of stranded assets and analyse the subsequent implications for assessing investment opportunities.

Mandate integrated reporting

Despite an increase in the volume of information made available by companies and the frequency with which it is produced, access to more data for public equity investors has not necessarily translated into more comprehensive insight into companies. Integrated reporting addresses this trend by encouraging companies to integrate both their financial and ESG performance into one report that includes only the most salient or material metrics. This will enable both companies and investors to make better resource allocation decisions about how ESG performance can contribute to sustainable, long term value creation. While voluntary integrated reporting is gaining momentum, it must be mandated to ensure swift and broad adoption.

End the default practice of issuing quarterly earnings guidance

Quarterly earnings guidance can create incentives for executives to manage for the short term and encourage some investors to over emphasise the significance of these measures at the expense of the longer term, more meaningful measure of sustainable value creation. Ending this default practice, in favour of only issuing guidance as deemed appropriate by the company (if at all), would encourage a long term view of the business, rather than the current focus on quarterly results. More thoughtful issuance of earnings guidance is compatible with enhanced standards of disclosure.

Align compensation structures with long term sustainable performance

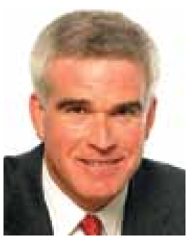
Presently, most compensation schemes emphasise short term actions disproportionately and fail to hold asset managers and corporate executives accountable for the ramifications of their decisions over the long term. Instead, financial rewards should be paid out over the period during which these results are realised, and compensation should be linked to fundamental drivers of long term value, employing rolling multi-year milestones for performance evaluation.

Encouraging long term investing with loyalty driven securities

The dominance of short termism in the market, often facilitated and exacerbated by algorithmic trading, is correlated with stock price volatility. It fosters general market instability as opposed to useful liquidity and undermines the efforts of executives seeking long term value creation.

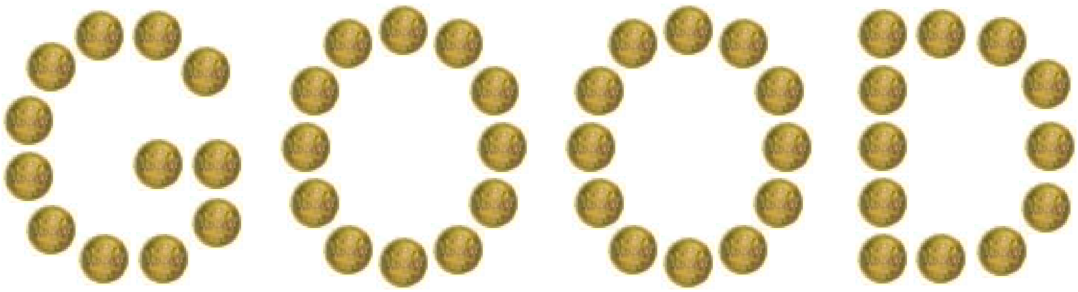
Companies can take a proactive stance against this growing trend of short termism by attracting long term investors with patient capital through the issuance of loyalty driven securities. Loyalty driven securities offer investors financial rewards for holding a company's shares for a certain number of years. This practice encourages long term investment horizons among investors and facilitates stability in financial markets and, therefore, plays an important role in mainstreaming sustainable capitalism.

The barriers to mainstreaming sustainable capitalism are formidable but not insurmountable. We believe that the actions for change we are recommending, taken together, will affect the entire business ecosystem and encourage reform by investors, companies, government and civil society alike to adopt long term horizons and consider ESG factors in addition to financial ones.



David Blood is senior partner of Generation Investment Management, which he co-founded in 2004 with Al Gore. To read *A manifesto for sustainable capitalism* (December 2011), visit www.generationim.com

A force for



The capitalism we have now is not how it's supposed to work, argues **Jesse Norman**, real capitalism is an economic and moral force for good

What do we mean by sustainable capitalism? A standard response is to cast the issue in terms of the environment. Seen in these terms, a minimal green capitalism might emphasise the tendency of companies and individuals to push environmental costs onto others, and try to use regulation to correct these and other negative incentives within a generally free market system.

More politically ambitious approaches would use the state to shape markets and institutional and individual behaviour to a greater extent, and/or seek to prescribe maximal acceptable levels of economic growth as such. Given that capitalism fundamentally relies on free markets, as intervention expanded it would start to become a matter of terminology as to how far such a green capitalism was in fact capitalist at all.

All these approaches are currently seen and argued for in this country. But we can look at the topic differently and ask what a morally and reputationally sustainable capitalism might look like: a capitalism that both functioned more ethically than the present UK version, and that could be readily understood as such. To answer this question we have to look clearly at what we have now and where it has gone wrong.

Let us start with a simple fact: capitalism is the greatest tool of economic development, wealth creation and social advance ever known. In capitalism, owners of intellectual, financial or human capital have property rights that enable them to earn a profit as a reward for putting that capital at risk in some form of free market economic activity.

Capitalism creates wealth: witness the development of western democracies versus that of communist countries after 1945. The same is true for developing countries. Korea used to be one country. Thirty years after the Korean war, GDP per capita in capitalist South Korea was five times that of communist North Korea; in 2009 it was sixteen times greater. And it is trade, not aid, which is pulling Africa out of poverty after decades of stagnation.

So the case for capitalism is not just economic; it is also moral. Of course, abuses of capitalism often occur; we are living in a time of widespread abuse at present. But the bigger truth is that capitalism is, at root, a moral force for good. It relies on, and so demands: personal freedom and individual autonomy, which are the foundation stones of personal morality; the virtues of hard work, creativity and thrift; social exchange: traditions and practices by which intellectual, financial and human capital can be shared and deployed to best effect; institutions such as the rule of law and the family that can preserve property through time; effective government to create and enforce the law, to share social costs and, I would argue, to help the disadvantaged; and a wider culture and a stable but fluid social order, in which its virtues are respected and opportunity exists for energy and talent, that is for all. In short, capitalism relies on, and so demands, trust. It does not exist just to make the rich richer.

But, and it is a huge 'but', this is real capitalism, capitalism as it's supposed to work. What we have now is crony capitalism. Without realising it, the free market west, most notably the US and the UK, has sleepwalked into a species of financial crony capitalism that has disguised economic reality, shielded underperformance, cosseted poor management and leached away value.

Crony capitalism has two key features: business activity loses any relation to, and often clashes with, the wider public interest; and business merit is separated from business reward. These features in turn feed off and into a culture in which values of decency, modesty and respect are disregarded, and short termism and quick returns come to dominate long established norms of fair dealing and just reward. The recent revelations about Barclays show how easily a proud reputation built up over 300 years can be destroyed by a change of culture in just a decade.

By contrast, real capitalism is a system in which real people take real risk, invest real time in real work and reap real rewards for their efforts. A day's work for a day's pay. Markets are used, but not venerated.

Competition is welcomed, but made subject to proper regulation and supervision. People are rewarded and respected for their aspiration, energy and innovation, not for being in the right place at the right time.

The current loss of faith in capitalism ignores this distinction, and so threatens to destroy not crony capitalism but capitalism itself. How, then, can we start to return to real, sustainable, capitalism? Here are five suggestions:

Culture matters

It is a striking fact that there was no credit boom, and virtually no borrowing for consumption, in Germany during the 2000s. But, internationally, the biggest German banks took enormous new gambles in US subprime assets, in dodgy Greek sovereign debt, in Ireland and Iceland. Why? The difference was in culture. Domestically, the banks obeyed traditional German norms of thrift, caution and modesty; internationally, the norms were set by free market ideology. By contrast, the Canadian and Australian banking systems largely escaped the financial crash because of their resilience, indeed the conservatism, of their lending cultures. In short: the efficient markets hypothesis is not holy writ; human beings are creatures of habit; the social order is based on traditions, practices and institutions which escape economic specification. Culture matters, in the banking system, in the UK economy, in our society.

> “The green movement has much of value to say about these issues of culture, reward, competition, markets, governance and values.”

Excessive pay is a serious issue

Pay is a litmus test of social norms and excessive pay, separating business merit from business reward, is a hallmark of crony capitalism. It is getting something for nothing. It is generally a mark of inadequate competition. In finance, it undermines stability and destroys the economic incentive for highly talented people to go into other sectors, such as high tech manufacturing and pharmaceuticals, where their brains would make a huge difference but the short term rewards are less. Overall, it promotes a culture of entitlement, and it sends a signal that we, as a society, are happy for fundamental norms of fair dealing and honest reward to be publicly undermined. The facts are sufficiently plain that this is not a party political issue.

We need to rethink competition and markets

A sustained attack on crony capitalism demands a new, deeper look at competition, and at competition policy. This is well understood for the financial sector, where energetic measures should be taken to increase the very small number of mid-size banks operating in the UK, and to cut implicit subsidies.

However, there is a deeper issue to be addressed. The official view of competition is a neoliberal one based on price competition and the possibility of market failure, conceived nationally. Among other things, this means that other social goals, and regional or local priorities, tend to be disregarded. Local democracy, and a community's ability to shape its own culture, is relegated to the sidelines. Local shops are undermined by the big supermarkets, which have low prices at the till but impose significant external costs on the communities around them. Local services and small businesses lose out, although they trap more spending locally and are often more durable than the national chains.

But if culture matters, then local shops and services matter. The government's current drive for localism is a crucial step in the right direction. What we now need is a deeper look at competition policy itself.

Key public institutions require better governance

Over the past decade our great British institutions, notably the Bank of England, the Treasury and the Financial Services Authority (FSA), failed to exercise adequate financial oversight and supervision of the UK financial system. A great deal of attention has been given recently to the issue of how to reform them, and the financial regulatory system has been heavily reconfigured, with huge new powers given to the Bank of England. But less attention has been given to the governance of the institutions themselves, new and old. This needs to change. For example, the Bank of England's own performance before and during the crash is only now starting to be properly examined, and its failure to take action was not simply due to a lack of the right tools.

We need to rediscover a public language of value

A final and more philosophical thought: one consequence of the shift in British culture over the past fifty years has been a retreat from social value judgements. In some respects this is desirable, for example to prevent the demonisation of minorities. But one side effect has been that we increasingly lack a public language of value through which norms of good behaviour can be set and maintained. Words like 'character', 'virtue' and 'wisdom', which reflect social value judgements rather than the neutral descriptions of social science, have dropped out of the public lexicon. It's little wonder that bank executives have so often felt able to line their pockets, and appeal to law rather than social norms or moral character, if they and we lack a shared public means to evaluate this behaviour.

These are a few initial thoughts. But three things are already clear. First, the question of how to create a morally and reputationally sustainable capitalism will continue to press upon us for many years yet. Second, the green movement has much of value to say about these issues of culture, reward, competition, markets, governance and values. But finally, the recovery of a sustainable real capitalism must go well beyond reflection on the environment as such, towards a much wider reconsideration of the nature of human society and well-being.

Jesse Norman is MP for Hereford and South Herefordshire, he sits on the Treasury Select Committee and blogs at www.jessenorman.com

Let's celebrate

Matthew Spencer says the strength and rise of the UK's green economy, revealed in Green Alliance's recent infographic, is something to celebrate, for both the environment and economic recovery

Amidst the gloom of austerity politics and melting polar ice we have something to celebrate. Remember all those arcane battles to create the policy frameworks for cleaner water, greater recycling and green energy? After years of slog from advocates, entrepreneurs and a fair few politicians, it is bearing fruit. Green business activity has become a force in the land, overtaking high profile sectors like telecoms and automotive industry in employment numbers and quietly establishing itself as a major export success story. Last year it contributed a third of the UK's growth, and next year it is expected to halve our total trade deficit. If you are reading this, the chances are that you played some part in this success.

In the nineties green jobs were a projection, predicated on future policy and heroic assumptions about its impact on investment. Some of this policy arrived and the noughties saw significant growth but in a dispersed pattern, with jobs occurring in modest numbers in most constituencies in the UK. They were largely unseen by politicians, and totally invisible to economists as they didn't get logged separately in surveys of business sector activity. But in the twenty teens green business activity has come of age, as demand for green goods and services has soared in the construction sector, renewables policy stepped up a gear, vehicle manufacturers pursued low carbon technology innovation and the UK has become a major green business service provider to the world. Since 2010 this activity has been picked up in an annual survey by the Department for Business, Innovation and Skills which interrogates green business activity across all industrial sectors.

This data sits behind both the CBI's green growth report earlier this year and our recent analysis *Green economy: a UK success story*, illustrating the significant role of green business in the wider UK economy. It allows us to be confident that, at some point this summer, the millionth person will have joined the swelling ranks of UK employees directly engaged in providing green goods and services. They will be the employee that macroeconomists dream of because green business ticks all the boxes for a rebalanced economy. The probability is that they were taken on outside London, in a thriving manufacturing, supply or installation business, which is growing its exports business to a BRIC country.

This success story may not yet have penetrated the British psyche, but it is beginning to be locked in to the structure of the British economy. This makes the current anti-environment campaign much less likely to be effective, since even the most tribal of politicians would hesitate to cut off a branch that has a large number of voters sitting on it.

So when you next read a derogatory remark in the *Daily Telegraph* or the *Daily Mail* about the costs of climate action, or the downsides of environmental policy, don't get angry. Enjoy the warm satisfaction of getting even. Private investment follows good environment policy. New jobs are created and, on the whole, they are better jobs than average in the British economy. We may have a very long way to go, but our strategy is working.

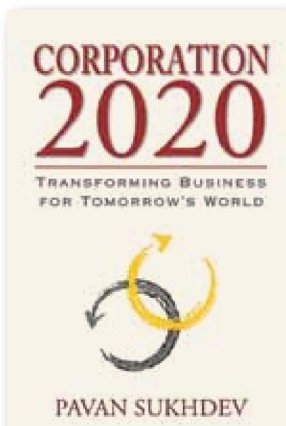
Matthew Spencer is director of Green Alliance.
***Green economy: a UK success story* (August 2012) is available to download from our website. Data sources and references can be found at www.green-alliance.org.uk/uksuccess**

The world of Corporation 2020

In this extract taken from the introduction of his new book *Corporation 2020*, published this month, green economy expert **Pavan Sukhdev** argues that, for corporations and society to survive and thrive, we need to rethink the way business works

Today's enabling conditions favour the DNA of Corporation 1920 and engender a brown economy. For our survival and success in the Earth's biosphere, tomorrow's enabling conditions will have to be at least neutral if not explicitly supportive of Corporation 2020, which will become the dominant agent in a global green economy. So what would this 'brave new world' look like, both for these corporations and the economies they would dominate?

The operating environment for corporations would have changed. Perverse subsidies would have been reduced, taxes reformed, new incentives added, public procurement greened and public investments focused on public wealth, especially ecological infrastructure. Private ownership and free markets would no longer be considered the panacea for all ills. Public ownership of the commons and community ownership of common-pool resources would be understood as economic reality, and not disparaged as market failure. And the private sector would actually benefit from this improved understanding. Just as trusted corporations today are contracted to deliver public services such as waste management or road maintenance, so they would also win contracts to manage common- pool resources and public reserves such as forests, wetlands, or coral reefs on behalf of and according to the dictates of their host societies and communities.



Financial leverage would be limited by regulations which align corporate interests better with societal goals such as economic stability. At present, this task is left largely to investors, with fund managers becoming the unlikely conscience-keepers of society. Capital adequacy requirements would be introduced for corporations above a certain size; at present, they apply only to banks and financial institutions. The idea that car companies, utilities, insurers, and mortgage originators can also be "too big to fail" would be accompanied by its logical corollary, that public capital is either invested in or is being put at risk by these corporations, so they must also conform to prudential capital management standards just as banks are required to do.

"Selling good, not good selling" would become the norm rather than the exception. The legal status of an advertisement would no longer be a place to hide. Today, an advertisement is a non-actionable inducement (or an 'invitation to treat' in common law), and not an actual offer, so in law there is no automatic recourse to misleading advertising, and specific product laws or sectoral laws or rules have to be introduced on a case by case basis, such as with advertising for cigarette smoking. Lessons learned in the context of the tobacco industry would be used to map wider solutions. Advertising would become accountable, and ethics in advertising would no longer be optional.

A new capitalism would prevail in the world of Corporation 2020, one recognising and rewarding the creation of natural, social, and human capital as well as traditional physical and financial capital. Growth in complexity—rather than just size—would be an underpinning principle of the emerging green economy. Innovation would be an increasingly important driver for growth and employment. We can only manage what we measure; thus national capital stock (not just value-added turnover) would become central to measuring national economic performance. International projects such as Beyond GDP and WAVES would have provided the launching pad for a system of national accounting that recognises and accounts for natural capital, its invisible benefit flows as well as its unaccounted loss or degradation. Fiscal gap management would not be affected by a switch to resource taxation for extractive industries, but it would motivate much greater resource efficiency. Likewise, for non-extractive but greenhouse-gas-emitting industries, taxing these 'bads' would gradually replace corporate taxes. Near term green economy forecasts for labour losses would take place, but well-managed transitions would lead to many more (and more satisfying) green jobs within a decade. Economics and politics would finally be aligned. On all counts – innovation, decent jobs, wealth, systemic risks, and income distribution – Corporation 2020 would gradually build up a successful and green macro economy. The time to begin is now.

Corporation 2020: transforming business for tomorrow's world
by Pavan Sukhdev, Island Press (September 2012), www.islandpress.org/corp2020

Circular Economy Task Force launched

Dame Ellen Macarthur speaking at Green Alliance's debate in July

Our economy is largely linear: we dig things out of the ground, turn them into products that last from a few minutes to a few years, then stick them back into the ground as landfill. This wastes resources and money, and harms the environment through both extraction and disposal. This process itself could be more efficient, but we are also demanding more and more raw materials to make the increasing quantity of products we consume.

There has to be a better way to do it, one that both reduces the economy's exposure to rising commodity prices and protects the environment by capturing the value of the resources that are currently wasted.

Green Alliance is working on the circular economy as the solution, where today's discarded goods are remanufactured or reused to become tomorrow's products. To make progress in this area, we have convened the Circular Economy Task Force, with the support of the Department for Environment, Food and Rural Affairs. This will enable business leaders to work closely with government to understand better what a successful circular business model looks like, how it can address resource security risks and how policy can foster the transition.

The task force was launched in July at a major debate on whether competition or collaboration is the best way for businesses to achieve resource security. Our expert panel included Dame Ellen Macarthur, talking about the huge opportunities available to businesses that embrace a circular system.

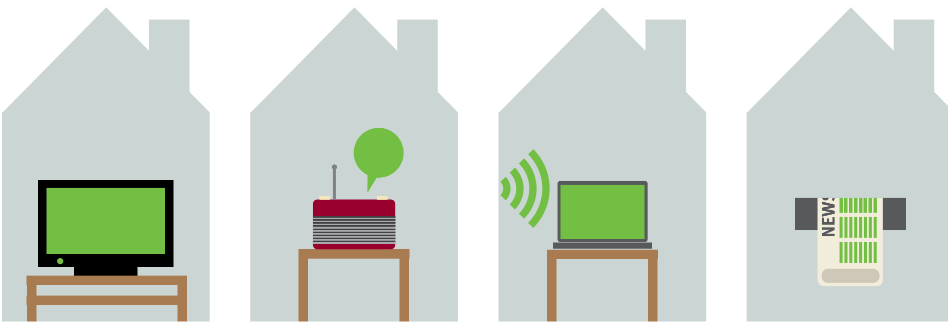
The Circular Economy Task Force members are: BASF, Boots, Interface, Kyocera, Unilever, Veolia, Viridor and WRAP

Watch the debate at www.green-alliance.org.uk/competeorcollaborate

For more information about the task force, contact Dustin Benton, senior policy adviser, 020 7630 4522 dbenton@green-alliance.org.uk

Selling energy saving

Rebekah Phillips explains why the UK needs to exploit the current window of opportunity and create an energy reduction superbrand



Any business professional will tell you that marketing is an absolutely essential ingredient of any new product or service.

In some respects corporate brand identities rule our visual world and our everyday lives. But brands are increasingly as ubiquitous for achieving policy goals as they are to selling stuff. A small grey robot was used by Digital UK for the roll-out of digital TV and Change4Life's colourful figures have persuaded us to eat well and exercise.

So it's perplexing that the government is launching new schemes to drive energy reduction in our homes, such as the Green Deal, without adequately considering the marketing. Until recently, there were no evident plans for central promotion, independent information or a visible brand.

This has been the subject of much discussion on Green Alliance's blog and on twitter, with stakeholders crying out for the government to take on this role. The issue was researched in depth for Green Alliance's report *Neither sermons nor silence: the case for national communications on energy use*. Its central conclusion was that a strong national brand for energy saving measures is vital to ensure uptake and prevent public money invested in the schemes from being wasted.

In response to our insights the government has now announced a £2 million communications campaign for the Green Deal.

The Department of Energy and Climate Change (DECC) has understood the importance of consumer engagement, branding, marketing and civil society mobilisation for its smart meter roll-out as well. This is intended to lead to consumer energy demand reduction and it will be, in some respects, a highly technical programme, delivering new digital meters to every household along with the corresponding central infrastructure.

DECC's smart meter team has understood that this scheme's success depends on consumer engagement: if householders don't open the door to meter installers, or reduce their energy use as a result of the new products and services they receive, the scheme will fail. The department has found a way to fund a central delivery body for marketing the roll-out in a way that does not require the Treasury to put its hand in its pocket. By requiring energy suppliers, who will benefit from the programme, to fund central communications and engagement, the government will harness the power, agility and PR expertise of the private sector.

In *Smarter communications: strengthening consumer engagement on smart meters* Green Alliance explored how DECC could build further on these plans, using Digital UK's experience in switching the nation to digital TV as an example. It showed the value of a deep and supportive regional engagement with civil society, strong brand presence and the use of pilot towns to test and improve methodology before national roll-out. All these options are now being explored by DECC's smart meter team.

So DECC has the potential to get its consumer engagement right on these two important schemes. But these are two separate communications campaigns, being launched in the near future, and there are other schemes in the pipeline. The new Energy Efficiency Deployment Office (EEDO) is working to join up policies at the technical level. This is the major window of opportunity to join up their public promotion and marketing as well.

A new, national, smart energy superbrand and central communications strategy should be EEDO's goal to help give these policies the best possible kick start and support. But there is a danger that decisions taken now could cut these options off. For example the smart meter central delivery body's remit, currently being decided, needs to allow for a potentially wider role in future.

The government is keen on private sector delivery. One important lesson it can learn from business is the value of marketing, branding and communications to ensure success.

Rebekah Phillips is a Green Alliance associate. Read *Neither sermons nor silence: the case for national communications on energy use* (May 2012) and *Smarter communications: strengthening consumer engagement on smart meters* (June 2012) at www.green-alliance.org.uk

Designing down our energy bills

Dustin Benton says even Eurosceptics should back the EU's ecodesign programme

What's the single biggest energy saving policy the UK has planned between now and 2020? It's not the much ballyhooed Green Deal, or smart meters, or the energy company obligation, which provides free insulation to homeowners. It's the much more obscure EU-led ecodesign programme, which is projected to save almost double the energy and carbon of these three other policies combined.

Ecodesign, which mandates minimum efficiency standards for products like refrigerators, TVs, air conditioning units, and electric motors, forms the largest part of the government's promise to keep energy bills where they are while the gas price rockets and outdated, end-of-life power stations are replaced.

Despite its outsized importance, an ominous silence surrounds ecodesign. This seems counterintuitive: why wouldn't ministers want to shout about how they are saving consumers' money?

The answer lies in the origin of the policy: the EU.

European regulation attracts formidable media opposition: the Daily Mail, Daily Telegraph, and Daily Express have all recently run stories gleefully telling people how they can get round the incandescent light bulb ban, which is part of ecodesign.

Tabloid antipathy towards Europe saps the political will to push for better products. Even the most hardened British Europhile won't pick a fight with the Mail when those opposing regulations like the light bulb ban pose as consumer champions, defending plucky homeowners from Eurocrats bent on meddling.

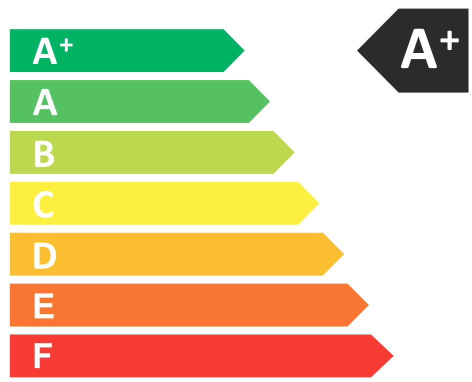
The truth is that efficiency regulation is good for consumers: the compulsory shift in 2005 to condensing boilers has saved UK consumers £800 million this year alone. It's the addition of Europe into the mix that makes the largely uncontroversial – saving money – controversial.

In Japan, where there is no such controversy, the most efficient air conditioner is 20 per cent more efficient than in the EU, largely because widespread public support allows the government to push manufacturers to make products more efficient. In the US, President Bush banned products with energy wasting standby modes eight years before the EU managed it, because everyone agreed it was so obviously good for consumers.

Opposing efficiency just because it's decided in Brussels leaves consumers worse off: an estimated £158 worse off per household per year. This is gesture politics we can't afford in the UK, especially as ecodesign is at risk of not delivering on its promise. Our recent report, Cutting Britain's energy bills shows that expected savings could be missed by 40 per cent due to a combination of lower than expected purchasing of efficient appliances and, crucially, serious delays in setting up ecodesign regulations, which can only be sped up by active engagement by UK ministers and civil servants.

The US and Japan rely on efficiency regulation because it's common sense. Ecodesign gives consumers what they want – clean clothes, fast computers and warm homes – and lower energy costs. You don't have to love the EU to love lower energy bills, but you do have to back ecodesign to cut Britain's energy bill.

Dustin Benton leads Green Alliance's Resource Stewardship theme. Read *Cutting Britain's energy bill: making the most of product efficiency standards* (September 2012) at www.green-alliance.org.uk



Green Alliance News

Four new faces at Green Alliance

Green Alliance's new head of sustainable business William Andrews Tipper joined us in June from FTI Consulting. He is developing our engagement with companies through our Business Circle and on strategic projects.
wandrewstipper@green-alliance.org.uk
020 7630 4528

Deputy director Tamsin Cooper will be on maternity leave from the end of September 2012. Edward Hobson, who was formerly at CABE, will be taking over the role until September 2013.
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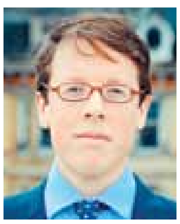
020 7630 4521



Jonny Hazell also started in June as policy assistant on our Resource Stewardship theme. He is helping to take forward our work with the new Circular Economy Task Force.

jhazell@green-alliance.org.uk
020 7630 4529

Adam Bell has come from RenewableUK to take up the post of policy adviser on our Low Carbon Energy theme. His initial projects include working on a policy framework for low carbon heat and looking at the impact of energy policy on consumer bills.
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020 7630 4511

New business foresight programme

Green Alliance's Business Circle allows progressive companies to benefit from our unique position at the interface between government, business and NGOs.

Members have access to our insight on important environmental issues and are able to participate in dinner debates for members, with high profile figures such as the secretary of state for environment, food and rural affairs and the CEO of Greenpeace. Under our new Sustainable Business theme we are taking this collaboration even further. This autumn, alongside our usual programme of political insight discussions, we'll be introducing a new foresight programme bringing together our Business Circle members with thought leaders from varied sectors to analyse sustainability trends, the challenges they present for business, and how they are likely to develop.

Our aim is to build a picture of cutting edge sustainability thinking in business, map how important environmental issues are being approached by companies and identify government policies that can support and accelerate the shift to more sustainable business practices. The first work programme will analyse the business impacts of the UK's faltering global leadership on sustainability and how it could play a bigger role in international green markets.

Members will have the opportunity to participate directly in generating new thinking and ideas. Alongside our work with companies under our Low Carbon Energy and Resource Stewardship themes, this new programme will be focused on the broader business agenda and will aim to bring valuable insights to both business and policy decision making.

We welcome new members Alstom and RES to the Business Circle.

Contact William Andrews Tipper, head of sustainable business, 020 7630 4528 wandrewstipper@green-alliance.org.uk

Business Circle members:

ASDA, BAA, BASF The Chemical Company, bp, nationalgrid, PEPSICO, res power for good, RioTinto, ROCKWOOL, RWE, SCOTTISHPOWER The Energy People, Shanks Making more from waste, SIEMENS, Shell, Unilever

Green Alliance is a charity and independent think tank focused on ambitious leadership for the environment. We have a track record of over 30 years, working with the most influential leaders from the NGO, business, and political communities. Our work generates new thinking and dialogue, and has increased political action and support for environmental solutions in the UK.

green alliance...

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