Funding the Future

# Accounting for a Green New Deal

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It’s another early morning start for me on a day that will be dominated by Brexit news. I will not be your source of updates. That’s not because I have given up on it all as yet: I have not. There are, instead, better things to think about. I am, amongst other diversions to do with existing research, taking part in the start of a grant writing process today. The application is to look at the actual processes required to ensure that the necessary funding for what might best be called a Green New Deal can be delivered. This, to me, seems much more important than Brexit in the long run.

The assumptions behind the work are simple: we have to deliver a transition to a sustainable economy. There is no plan B. And the market cannot do this alone. It has not got the conventional profit motivated incentives to do so. In that case the process has to be driven by the government, and yet involve strong private sector partnership. This means new incentives have to be created, and some will have to be imposed. Appropriate funding structures have to be found. And reporting structures that extend far beyond financial ones alone have to be created or the whole process has potential to go horribly wrong.

The challenges are considerable. Saying we are going to do something is not the same as delivering it. Let me give just one example. It may seem peripheral, but is vital in my opinion (although is unlikely to feature much in the grant application). In accounting capital is now a wholly forward looking measure (or should be when mark-to-market principles are applied). In effect, a balance sheet value is the current discounted worth of the cash flows an asset should be able to generate. And a liability is the current value of the obligation due at the time when it might be settled. The logic is fairly well known, if only within the financial community. By and large (and I am summarising) historic cost is only relevant with regard to very short term assets and liabilities.

But there is a problem with this. It makes a balance sheet, and those who manage it, indifferent as to when a transaction take place, so long as the discount rate still makes it attractive in terms of contemplating it at all. So precisely when, for example, the transition to a sustainable economy takes place is not a matter of priority to this form of financial capitalism: if it pays eventually then provided the associated risks (and so discount rate) do not diminish its value to the point of insignificance then it remains attractive whenever it occurs. But as a society; as a race; and as businesses whose survival will also depend upon this transition happening by a point in time that indifference as to timing that financial capitalism implies is not just inappropriate but wholly conflicts with the requirement that this task be undertaken in little more than a decade.

As a result the indifference to time inherent in modern financial capitalism may be wholly inappropriate when considering the Green New Deal. But what that implies is that accounting will require a new concept of capital where the time that a transaction occurs does matter, very precisely. There can be no indifference as to progression towards a green transition in this type of reporting: that goal makes precise timing a matter of priority in itself.

The implication is very clear. First, such accounting makes clear that some assets that are now valued (e.g. oil related assets where the oil in question will have to be left in the ground) do no longer have value. It is simply not possible to presume asset life when there can be none.

Second, value has to be attached to not just what can theoretically be done, but what we can actually do. The whole profile of what can be of value changes. Capital is constrained in ways that simply do not exist at present by its impact on climate change.

Third, new concepts of value are, then, essential. In particular, the human value to innovate in the face of necessity is the real capital of society as we face this transition, but how to account for that is an almost unresolved question when the resulting intellectual property has to be shared for maximum impact, and not be restricted in use.

Then, fourthly, how organisations measure periodic returns within this framework have to be reappraised. What is certain is that the current profit and loss account (or income statement) view presented by company accounts will have to change. How is a question that has so far hardly been thought about.

Asking for a Green New Deal is one thing. But a bit like Brexit, the reality will require fiendishly complex processes of change. And we have very little time to get our heads around them. The clock is ticking.