

Funding the Green New Deal

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I have done presentations in Edinburgh and Glasgow over the last two evenings on the Green New Deal. As is my usual practice, I prepared notes in advance and then presented without using them. The result was two quite different presentations. I did address the question of what the Green New Deal would cost on both occasions. This comes from the quite lengthy notes I prepared in anticipation of the talks:

How do we fund the Green New Deal?

In some ways I find this question rather boring. What it implies is that we have a choice about doing the Green New Deal. We don't.

That said, current best estimates are that it will cost the UK as a whole at least £50 billion a year, or about 2.5% of current UK GDP. And if you think 2.5% to 3% of national income to save life on earth is a price not worth paying I am very worried about your sense of priorities.

So how is this paid for, having noted what MMT says about money creation and government spending? There are five options:

- * Reallocating existing resources;
- * People depositing money with the government;
- * Additional tax;
- * Private investment;
- * Green quantitative easing.

In this piece I am just going to consider some of these.

Reallocating capital

Reallocating existing resources is something I am keen to do, not least because so many savings are currently really badly allocated within our society.

Something like 80% of all wealth in the UK as a whole is tax incentivised. Of that sum 42% is held in pension funds, who in turn invest most of it in shares, company debt and commercial land and buildings.

35% is in people's homes, which are tax incentivised because we under tax them, which is creating excess value that is denying our young people the chance to own their own homes, which is destabilising societies.

And another 4% is held in tax driven savings schemes like individual savings accounts (ISAs). There are now plenty of ISA millionaires, paying not a penny in tax on their income earned through these schemes.

I'm not going to touch on housing in this context. I will address the other two.

I suggest that all new pension fund contributions, all of which enjoy tax relief costing the UK as a whole more than £54 billion a year **[11 (which is evidence enough that we can afford a Green New Deal), should now be subject to the condition that if tax relief is to be given then 25% of the contributions made must be invested in the Green New Deal. That will reallocate considerable capital. This one change might provide funds exceeding £20 billion a year.]**

What does investing in the Green New Deal mean? It means acquiring newly issued shares, bonds and gilts issued by government, local authorities, other agencies and companies that can be shown to be issued to directly fund investment in the transition to a zero-carbon economy. These would have to be approved, of course, and the restriction clearly need not to apply to funding the transition in the UK, although I suspect the bias will very strongly be that way.

What will they fund?:

- * Transforming the UK's housing stock to save energy;**
- * Building new social housing;**
- * Creating new renewable energy generation capacity;**
- * Changing our transport infrastructure to remove the dependence on fossil fuel;**
- * Transforming agriculture to reduce energy usage;**
- * Reforesting;**
- * R & D to create new technology;**
- * Funding companies who will deliver the Green New Deal on the ground;**
- * And much more.**

In addition I suggest that all ISA saving now be dependent solely on the funds saved being invested in the Green New Deal. That could mean bonds or shares. The latest ISA statistics [21] show that in the UK as a whole almost £70 billion was subscribed to ISAs in 2017/18 and given the options available from Green New Deal ISA accounts as I outline them I think that a change in the law will have little impact on this sum. That's because paying a 2% rate of return on such savings - which is better than just about anything in the ISA market right now - and less than inflation and so has no net cost to government - would cost no more than £1 billion a year if the £50 billion for the Green New Deal was funded in this way alone, with that return in any event being generated many times over by the tax paid on the additional economic activity that this funding would create.

My point is this: the reallocation of capital is possible. The evidence is that tax has a massive influence on how people save. And right now the vast majority of the benefit of the tax subsidy that savings get goes to the wealthy, the financial services industry and those who speculate in land and buildings. This is not socially useful activity and it is a dire waste of tax subsidy. So we need to reallocate that tax subsidy to align tax policy with what has to now be the biggest priority of society - which is saving the planet. That is all I am suggesting: that we shift the subsidies that we offer from banks and financial services companies and speculators to the creation of real work for people who need it creating the sustainable future that we must have.

And I suggest that we can fund a Green New Deal as a result.

Footnotes:

[11] See <http://researchbriefings.files.parliament.uk/documents/CBP-7505/CBP-7505.pdf> published by the House of Commons in 2018. The costs noted on page 6 offset tax collected on pensions paid against the current cost of tax reliefs. In accounting and economic terms this is wholly inappropriate: this tax would be paid even if there was no current tax relief given, meaning that they are entirely independent of each other and the offset cannot be made.

[21]

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797786/Full_ISA_Statistics_Release_April_2019.pdf