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George Osborne must prove he is a real reformer with a green budget

The chancellor must not bow to Treasury orthodoxy when it comes to the measures needed to build a green economy

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The Treasury has been criticised for opposing the interventions required to deliver green growth. Photograph: Oli Scarff/Getty Images

When defending its deficit reduction strategy, the coalition government is quick to point out that it is a reforming government and not just about cuts. But this radical zeal seems to stop at the door of the Treasury.

The continued dominance of Treasury orthodoxy was brought home recently as ministers scrambled around for growth initiatives but only came up with tired ideas like enterprise zones and even more deregulation. Not even the most ardent neo-classical economist would claim these supply-side measures will deliver short-term growth and jobs.

The coalition has a clear set of levers it can use to stimulate growth – the green economic levers required to decarbonise our energy system and tackle climate change. Chris Huhne, the energy and climate change secretary, has already announced that by 2015 these levers could deliver £50bn of new investment, 100,000 new jobs and access to $1 trillion in new export opportunities. These are the government's own estimates of the economic benefits of fully implementing the energy and climate change policies contained in the coalition agreement.

But despite the potential of these economic interventions to reboot the economy, the Treasury continues to oppose the interventions required to deliver green growth. Most private sector analysis suggests that providing the necessary increase in capital flows to create a low-carbon power sector, and minimising investment costs for energy efficiency, will require a public green investment bank (GIB) that is independent and can borrow.

But this would break 80 years of Treasury policy against ceding control over borrowing. As Huhne said: "Ducks quack and banks borrow," but the Treasury is doing all it can to stop the GIB from having borrowing powers, favouring a fund.

Officials raise the spectre that lending by the GIB would be recorded on the government's balance sheet and so could break the government's public debt targets. But even the most optimistic estimates of the GIB's borrowing by 2015 would be dwarfed by existing liabilities which look likely to come on-balance sheet under new accounting rules. For example, legacy public-private partnerships costs, public pensions and the nuclear clean-up, which add up to well over £1tr of on-balance sheet liabilities.

Even when the Treasury does back a climate policy it seems to go horribly wrong. It will soon announce details of a new carbon floor price. This will bring in some revenue to the Treasury coffers but its own modelling shows it will do nothing to change low-carbon investment for the next 15 years.

It will also increase bills to UK manufacturing industry and will drag billions of pounds out of the energy sector at a time when annual investment needs to rapidly increase. At the very least this revenue, like income from the European emissions trading scheme, needs to be recycled into low-carbon investment.

One of the most valuable ways in which this revenue could be invested to produce growth is to support the complete refurbishment of the UK's old and leaky housing stock in the so-called "green deal". Everybody in the energy efficiency business knows getting customers to agree to refurbishment in large numbers will require upfront subsidies and cheap capital which the Treasury is refusing to provide.

But the benefits to UK plc could be colossal – it could leverage £200-300bn of private investment over 20 years, creating well-paid skilled jobs all over the country and saving huge amounts in lower gas bills, fewer power stations and lower greenhouse gas emissions.

Perhaps the most ironic feature of this debate is the Treasury mantra that growth will be driven by exports to our key markets of China, US and Germany. But all of these countries are driving demand for their own exports to the UK through a mixture of fiscal policy or investment supported by their own national development banks.

George Osborne has a choice as chancellor. He can support British businesses and the economy by releasing the investment and entrepreneurship of the green economy by giving the go-ahead to a GIB with the power to borrow from day one, announcing public funding for the green deal and committing to an ambitious green growth strategy. Or he can bow to Treasury free market fundamentalism and watch our competitors take these markets.

The decisions he announces on budget day will determine whether he is remembered as a great reforming chancellor or just another in the long line of politicians who spent their political capital defending Treasury orthodoxy.

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