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Written by [Jan Boucek](#) [2] | Monday 14 March 2011



What do the global credit crunch and Friday's earthquake in Japan have in common? They both underscore the folly of Britain's efforts to create a 'green investment bank'.

On Friday, the House environmental audit committee warned that, if the green bank is structured as a 'proper' bank, there would be little chance of meeting government targets on emissions and renewable energy. In other words, this committee is keen that only projects that don't make economic sense get funded by the green bank.

The credit crunch clearly showed how moral hazard – the assumption that banks wouldn't be allowed to fail – fuelled massive property bubbles around the world whose bursting landed us in the mess we're in now. Just imagine what a bank without any pretence of commercial discipline could do.

Already, the coalition government is going that route with the proposed £32 billion high-speed rail line from London to Manchester and Leeds via Birmingham. The economic case for this isn't at all obvious. Rather, it's part of an almost religious faith in seemingly green but massive projects in line with the prevailing orthodoxy.

Sound familiar? For most of the past 20 or 30 years, home ownership for all was the holy grail – a sure one-way bet that went unopposed, if not actually encouraged, by policymakers. Just think of Fannie Mae and Freddie Mac or 125% mortgages.

And the Japanese earthquake? It's a salutary reminder there are still other, perhaps bigger, dangers than global warming. The risk is that the green bank will spray money on politically attuned ventures at the expense of more pressing short-term but humdrum needs – coastal flood defences, snow preparedness, road maintenance, non-high speed rail improvements, resilient power supply, water distribution and sewage treatment.

A green bank with no commercial discipline is a recipe for white elephants and taxpayer bailouts.

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