

New Horizons Hub: a green recovery for the post-Covid world?

With hopes of a V-shaped recovery from the Covid-19 pandemic receding, it is clear that it will lead to more profound change. In 'Pandemonics', Mark Cliffe identified 15 different shifts that may confront us over the coming years. We pick up on these in our top selection of this week's stories from trusted third party providers

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Source: Shutterstock

- 1. Big government is back** - Covid-19 has forced governments to intervene in the economy and daily life in a way unprecedented in peacetime. More changes will come after emergency lockdowns and support has ended.
- 2. Peak populism** - populist politicians will push their nationalist agendas, pointing to the dangers of unbridled openness, but some countries may embrace a more focused internationalism to tackle global problems.
- 3. Competence matters** - governments and companies that fail to show competence and compassion amid lost lives and livelihoods will rapidly lose trust and support. Their crimes may fuel ongoing conflict.
- 4. From monetary to fiscal** - a further radical transformation of macro policy will cast a long shadow. With fiscal rules cast aside, dealing with a massive build-up of debt will be an enormous challenge.

- 5. Inequality matters** – it's not just a matter of fairness, it's a matter of social stability and public health security. Society's dependence on often low-paid and vulnerable people providing vital services is now in the spotlight.
- 6. 'Too many to fail'** – pandemic lockdowns will lead to a shake-up in the services sector, especially in high social contact areas such as leisure, which are dominated by small businesses, the low-paid and self-employed.
- 7. Collateral damage** – government intervention in the financial system will continue. Beyond a rethink of how to keep financial markets functioning in future crises, a surge in insolvencies will leave a painful legacy.
- 8. Rethinking efficiency** – the pandemic exposed the dangers of over-optimising processes, which leave little slack to deal with sudden setbacks. Instead of 'just in time', the ethos will shift to bigger 'just in case' inventories.
- 9. Rethink risk management** – businesses will shift from linear thinking based on quantifiable risks based on past precedent to a new focus on mastering uncertainty with resilience and agility.
- 10. Rethinking supply chains** – the fact that the pandemic emanated from China, the modern-day 'workshop of the world', exposed the vulnerability of global supply chains.
- 11. Expertise matters, and it needs to be diverse** – on top of epidemiology, investments in science, both physical and social, will be needed to help inform difficult political, ethical and economic choices on future challenges.
- 12. War on disease** – the huge human and economic toll of pandemics will push investments in health research and systems to the top of the agenda and add to the urgency of addressing other global threats to sustainability.
- 13. From physical to digital** – sustained curbs on travel and enforced working from home during the pandemic will lead to a steep increase in people interacting digitally, radically shaking up the structure of the economy.
- 14. Lasting shifts in consumer behaviour and social norms** – the mortal threat posed by social interactions has shifted our thinking about how we relate to our households, families, neighbours and communities.
- 15. More benign surveillance of individual health and social interactions** – the benefits of tracking of personal health and our interaction with others may be reconciled with privacy and security by decentralised technology.

[Read about our four scenarios for the global economy after Covid-19](#)

Compound growth could kill us – or make us stronger

The power of compound growth has long been recognised as essential to economic development. But in both the Covid-19 pandemic and the slower-moving...



A modern housing block in Milan, Italy

A good way to think about the coronavirus pandemic is that it is like climate change at warp speed. What takes decades and centuries for the climate takes days or weeks for a contagious disease. That speed focuses the mind and offers lessons in how to think about risk in an interconnected world.

With both climate change and Covid-19, the real problem is not absolute numbers (whether greenhouse-gas emissions or infections), but rather the rate of change. It is bad enough that average global temperatures have risen by 1°C (almost 2°F) above pre-industrial levels. But warming of 2°, 3°, or many more degrees would be profoundly worse.

In pandemics, too, even a very small difference in the growth trajectory has stark consequences down the line. Coronavirus infections have increased by around 33% per day in most European countries (and by only slightly less in the United States, possibly owing to a relative lack of testing). At that rate, a dozen cases today will become 500 cases within two weeks, and 20,000 two weeks after that.

Italy had to shut down much of its economy after reaching just 12,000 cases. And shut down we must, before more health-care systems come anywhere close to the breaking point. Again, the top priority is to slow the rate of growth. Hong Kong and Singapore closed schools and enforced quarantines long before things could spin out of control, and their daily coronavirus growth rates appear to be close to around 3.3%.

The critical point about compound growth is that a 3.3% infection rate isn't merely 10 times better than a 33% rate; over the course of three weeks, it is 150 times better. At the lower rate, 100 cases will not quite double in that space of time, whereas at the higher rate, 100 cases will become 30,000.

Now consider that, by one estimate, 10-15% of early Covid-19 cases in China were severe, which implies that just around 20 people would require intensive care in our low-growth scenario, whereas 3,000 people would require it in our high-growth scenario. That difference has significant implications for health systems. Italy is a case in point: its hospitals have had to triage patients or turn them away outright, and its Covid-19 death rate is significantly higher than in other countries.

These public-health "breaking points" are to the Covid-19 pandemic what "tipping points" are to climate change. Where and when they will be reached might be uncertain; but they are all too real. Likewise, in both cases (and in most countries), it is already too late for containment. The priority now is mitigation, closely followed by adaptation to what's already in store. In confronting Covid-19, the goal is to "flatten the curve," just as we must "bend" the curve in greenhouse-gas emissions. Small, immediate reductions in the growth rate will increasingly pay off over time.

Of course, achieving such reductions isn't easy. Closing schools blocks one channel of disease transmission, but it also places a significant additional burden on households where parents must stay home and begin home schooling overnight. Here, New York City's decision to provide "grab-and-go meals" and supervision for the children of health-care providers, first responders, and public-transit employees represents an important step, given that school closures, by indisposing critical workers, can actually increase net mortality from Covid-19.

Such tradeoffs point to perhaps the most important commonality between Covid-19 and climate change: externalities. In both crises, an individual's personal calculus may undermine the welfare of society as a whole. Healthy young people who face a significantly lower risk of dying from the coronavirus will see little reason not to continue commuting to work and putting in "face time" to advance their careers. That is why we need governments to step in proactively to change the individual calculus.

Imagine a scenario in which Italy had shut down completely in mid-February, when there were still fewer than 30 Covid-19 cases there. The costs of the disruption would have been large, and the public outcry loud. But thousands of deaths would have been averted, and the overall economic costs from a hasty, proactive shutdown would surely be lower than those of an even hastier, reactive one. Unlike Italy, Hong Kong is already slowly emerging from its proactive shutdown.

Fortunately, mitigating climate change doesn't require anything close to an economic shutdown. But it does demand a fundamental rechanneling of market forces away from the current low-efficiency, high-carbon path toward a high-efficiency, low-carbon one. That will require proactive government policies, increased investment, and innovation. The results will be measured in years and decades, but they are highly dependent on what we do now.

In neither case can public policies operate in isolation. The Covid-19 crisis has underscored the need for paid sick leave and universal health care, just as the climate crisis has done for investments in green jobs and manufacturing and measures to address environmental inequities. Sitting back and waiting for a techno-fix is not the answer. Working toward a vaccine for Covid-19 is obviously important, as is research into clean-energy “moonshots” and even geoengineering technologies. But these all will take time and real investments in science.

The Chinese word for “crisis” famously consists of two characters: danger (凶) and opportunity (机). In the case of Covid-19, the opportunity may well lie in demonstrating that rapid behavioural change is possible. Indeed, this April, the Intergovernmental Panel on Climate Change held its first-ever virtual Lead Author meeting. Running online-only meetings with 300 people on five continents is a challenge. But it is certainly easier than flying halfway around the world. Higher-energy physicists have done so for years.

Looking ahead, we all must ask ourselves whether we are taking sufficient steps to “flatten the curve” of transmissions, and to “bend the curve” of emissions. Yes, the coronavirus may have reduced China’s CO2 emissions this year, owing to the factory closures in Wuhan and general economic malaise. But in the end, it’s all about the trajectory. To confront today’s global crises, we must come to grips with the mathematical power of compound growth, which is both a curse and a blessing.

The original article first appeared on Project Syndicate [here](#).

Bertrand Badré: Don't waste the pandemic response

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Bertrand Badré is a former Managing Director of the World Bank

Shaping the post-pandemic world

The COVID-19 pandemic is one of the greatest global challenges in generations. Governments and monetary authorities are correctly using every policy lever at their disposal to prevent a grave public-health emergency from becoming an even deeper economic, political, and social crisis. But as we rush to mobilize, we also must start thinking about how we can shape the post-pandemic world for the better.

During the last global crisis 11 years ago, the international community succeeded in preventing a complete financial collapse, but fell short of bringing about a strong recovery, let alone laying the foundation for a more sustainable economy. China, for example, quickly implemented one of the most expansive stimulus packages in history. But while this response was effective in preventing a deep recession, it was followed by rapid increases in China's annual greenhouse-gas emissions.

What course will we chart for the twenty-first-century economy?

Now that the world is committing to doing “whatever it takes” to avert a deeper catastrophe from COVID-19, we must recognize that the same imperative applies to the longer-running global sustainability crisis. And yet, it already looks like the first wave of stimulus policies will once again centre around high-carbon sectors, as evidenced by the pushback against the European Green Deal and the bailouts being extended to the fossil-fuel industry.

Despite the 2015 Paris climate accord and the Addis Ababa Action Agenda for financing sustainable development, the world still is not on track to meet its targets for greenhouse gas (GHG) emissions or investment in low-carbon technologies. We are still beholden to Milton Friedman’s mantra that “the social responsibility of business is to increase its profits.” But the second global crisis in little more than a decade confronts us with a choice: What course will we chart for the twenty-first-century economy?

An urgency for greater global cooperation

The COVID-19 emergency represents an opportunity to accelerate the transition to a more sustainable society at a pace that would have been unthinkable just a month ago. Now that the fiscal dams are breaking loose, public investment must be directed where it is most needed, not just now, but also in the long term. This need not involve a trade-off. As soon as people can return to work, governments can support job-intensive construction-sector programs to retrofit residential and commercial buildings for energy efficiency. They can invest in renewable energy and sustainable infrastructure, while also funding new research and development, reforestation, coral-reef restoration, regenerative agriculture, sustainable fisheries, and so forth.

Moreover, there is now an opportunity – and an urgent need – to pursue deeper global cooperation on all of these fronts. The pandemic threatens to devastate developing and emerging economies, which can bring to bear far less monetary and fiscal firepower. The resources of the International Monetary Fund and multilateral development banks (MDBs) must be mobilized, expanded, and deployed more creatively to help the world’s most vulnerable regions.

With public budgets already strained, private investment also must be mobilized. A significant portion of this should be directed toward sustainable infrastructure in the developing world, which now accounts for most global GHG emissions. MDBs, in particular, should step up their efforts by assuming far more risk, offering stronger guarantees, and ratcheting up climate and biodiversity investment targets.

It's time to think big

Fortunately, as we pursue a more sustainable post-pandemic future, we will not be starting from scratch. Building on the current international agreements for reducing emissions and increasing finance for sustainable development, many countries have been working toward new global targets for preserving biodiversity, in anticipation of the forthcoming (though now postponed) Convention on Biological Diversity (COP15) in China.

Now is the time to think big. In 1944, while World War II was still raging, representatives from governments around the world gathered in Bretton Woods, New Hampshire to start planning for what would follow it. Following that model, we should be preparing a new Bretton Woods for sustainability.

There is much work to be done. We need new global standards, closer alignment targets for

achieving net-zero-emissions, and modified financial standards to account for environmental factors (“mark-to-planet” accounting). We also need to create new networks of public and private coalitions to improve upon existing multilateral frameworks. A Green Bretton Woods would provide a platform for countries to negotiate new rules for sustainable finance and commerce. It could produce new science-based targets and metrics for the private sector and governments, more financing for global public goods (crucially, biodiverse ecosystems), deeper international alignment among national-level subsidy and tax regimes, and longer time horizons for investments.

The financial sector has a critical role to play

The financial sector is the economy’s main mechanism for allocating resources and the distribution of risk. Given current constraints on government budgets, the financial sector has a critical role to play in redirecting private capital flows toward the investments needed for a more sustainable economy.

The COVID-19 crisis comes at a crucial moment: the beginning of the last decade that we have to act on climate change. Climate scientists have warned that a failure to take the necessary steps now will result in catastrophic global warming and mass extinctions. There will be no better moment to address the root causes of global imbalances, to face up to the looming social and environmental crisis, and to reaffirm and then strengthen the international commitments that we made just five years ago.

Governments are about to spend trillions of dollars to soften the blow from COVID-19. We must not let that money go to waste. When one is being buffeted by a storm of this magnitude, the worst thing one can do is lose one’s compass. But we must use that compass to chart a new course toward an economic model that placed human and environmental sustainability at its center.

The original article first appeared in Project Syndicate [here](#) on April 21st, 2020.

EU debt as insurance: key questions and some answers

European Union debt can provide comprehensive insurance against the Covid-19 pandemic and can enable a macroeconomic response, even though EU debt is a...



Brussels' business district

Introduction

The idea of a European Covid-19 pandemic recovery fund (discussed by EU heads of state on 23 April) has triggered a heated debate on joint borrowing. This blog post clarifies some of the concepts at the heart of this debate, concluding that EU debt to cope with the consequences of this crisis would tremendously increase the stability of the euro area. EU debt for the temporary catastrophic shock would provide effective insurance but multiple issues need to be solved. EU leaders should agree on multiple European Council meetings to solve them.

A key quote from the article:

EU debt to cope with the consequences of this crisis is highly desirable. However, it can only be delivered in a framework in which joint borrowing is not separated from control over spending and revenues. Establishing such control via intergovernmental mechanisms will likely be politically unsustainable for such a health shock. Failing to put in place any control mechanisms would likely be equally unsustainable. The right road is towards some temporary EU debt for the temporary catastrophic shock. Catastrophic shock insurance increases the stability of the system and is

therefore in the interest of all members of the system.

Agreeing on a good system will likely require several European Councils as it requires establishing acceptable mechanisms of control, accountability, spending design, and the right legal base. It may very well be that limits of the EU Treaty are too tight and that treaty reform becomes unavoidable or that new treaties outside the EU Treaty need to be established. But for the time being, Art 122(2) offers at least some options. And the fact that institutions such as the Commission, the European Parliament and the European Court of Auditors exist is a good starting point.

The full original article first appeared on Bruegel [here](#).

Embedded supervision: How to regulate Libra 2.0 and the token economy

This column uses the revised proposal for the Libra global stablecoin as an example to illustrate possibilities for supervisors to harness information in...



Introduction

Authorities around the world are grappling with the rise of digital currencies and decentralised finance based on distributed ledger technology (DLT). The announcement of Libra and similar 'stablecoin' projects, such as Tether, USD Coin, and TrueUSD, puts a broader set of regulatory issues on the agenda, including regulations on the quality of asset backing (Fatás and Weder Di Mauro 2019, Cecchetti and Schoenholtz 2019, G7 Working Group on Stablecoins 2019, FSB 2020). The overarching consideration is that, when faced with innovations, how best to apply technology-neutral regulation so that similar economic and financial risks are treated on par.

Yet, the fact that regulation must be technology-neutral does not preclude public authorities from embracing innovation in supervision. Where 'regulation' is the process of setting the rules that apply to the regulated entities, 'supervision' is the compliance monitoring and enforcement of these rules, which has to be dynamic and adaptable.

Supervision might well evolve with technology. In recent work (Auer 2019b), I put forward the concept of 'embedded supervision'. Embedded supervision is a framework that provides automatic monitoring by reading the ledger of a DLT-based market (see Figure 1). The ledger of a DLT-based market contains much information which is relevant for supervisory purposes. As such, it can be used to improve the quality of data available to the supervisor, while reducing the need for firms to

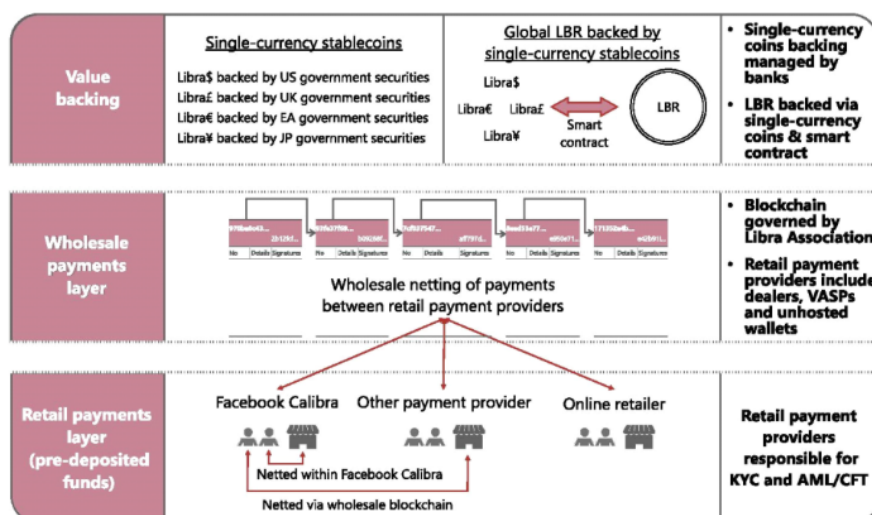
actively collect, verify and report data to authorities.

A key quote from the article:

Allowing for embedded supervision could be important in the development of so-called asset 'tokenisation' – the process by which claims on or ownership in real and financial assets are digitally represented by tokens, allowing for new forms of trading and improved settlements (Bech et al. 2020).

In particular, one key early use case of embedded supervision may be the monitoring of full asset-backing of a blockchain-based stablecoin. To exemplify both the merits and limits of embedded supervision applied to stablecoins, consider the revised Libra proposal (Libra 2.0, see Libra Association 2020).

[The chart below] lays out the basic architecture of Libra 2.0, which has three layers. The first layer is the value-backing of two distinct types of stablecoins, single-currency stablecoins, such as Libra\$ or Libra€, and a global stablecoin (LBR), that is a basket of the single-currency stablecoins. On the second layer these stablecoins are made available to payment service providers (PSP) and eWallet providers, such as Facebook's digital wallet Calibra. On the third layer, the single-currency stablecoins and LBR are made available to retail clients.



Source: Source: Auer (2019b)

Notes: Libra 2.0 is to feature both single-currency stablecoins such as Libra\$ or Libra€, as well as a global stablecoin (LBR) that is a basket of the single-currency stablecoins. The architecture has three layers. The first layer is the value-backing. For the single-currency stablecoins, the value backing is guaranteed via reserves held at commercial banks. For LBR, the value backing is a smart contract that locks in a sufficient amount of single-currency stablecoins according to the basket composition. In the second wholesale layer, the various stablecoins are made available to retail payment providers, including designated dealers, virtual asset service providers (VASPs), and potentially also anonymous 'unhosted' wallets. An example for a retail payment service provider is Facebook Calibra. The third layer is that these payment service providers, in turn, make LBR and the single-currency stablecoins available to retail clients for use in payments.

The full original article first appeared on VoxEU [here](#).

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