

# New Horizons Hub: When the crisis becomes personal

It's right to be concerned that the Covid-19 crisis will damage the economy for many years, but not everyone will be scarred in the same way, writes ING's Ian Bright. We pick up on these in our top selection of this week's stories from ING authors and our trusted third-party providers.

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# Climate Targets and Industry Participation in the Recovery

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## Covid-19 is not an excuse to lower climate ambitions

COPENHAGEN – The COVID-19 pandemic must not lead governments to lower their climate ambitions. Accelerating the transition to a low-carbon sustainable economy can both drive the recovery and build resilience for the future.

Other countries could look to Denmark for inspiration on climate initiatives that will also contribute to economic recovery. The country is currently taking real action to achieve its target of reducing carbon dioxide emissions by 70% by 2030 and reaching zero net emissions by 2050.

As the CEOs of Danish corporations with a global presence in renewable energy, water technology, and pharmaceuticals, respectively, we have been appointed by the Danish government to chair public-private “climate partnerships” created to pursue climate-policy goals. Our job has been to develop comprehensive roadmaps for reaching emissions-reduction targets within our respective sectors in the most cost-efficient way.

Having chaired these partnerships for the past seven months, we believe governments around the world would benefit greatly both from this model of collaboration and from our specific findings on

how to make the manufacturing, energy, and life science and biotech sectors nearly carbon-neutral by 2030. As countries spend trillions of dollars to protect jobs and livelihoods during the pandemic, it is crucial that they shape such stimulus in ways that will ensure a long-term sustainable recovery.

The World Health Organization estimates that the annual capital needed to meet the Paris climate agreement's emissions-reduction targets amounts to some 1% of global GDP per year. Governments thus should capitalize on the current opening to direct their mid- and long-term recovery plans toward the dual objective of financial stimulus and decarbonization.

## The green business is good business

Pursuing these goals simultaneously is not merely a moral imperative. It also makes economic sense. Governments urgently need to unlock the private sector's capacity for innovation and investment, starting with concrete and ambitious emissions-reduction targets for 2030 and 2050. Once such targets are in place, governments should involve businesses in developing sector-specific roadmaps for decarbonization.

The logic of leveraging the private sector is simple. Business leaders are in the best position to identify economically sound carbon-reduction pathways within their own sectors, and they have firsthand knowledge of what is needed from governments to unlock private-sector investments. This is what we call the Danish formula for public-private collaboration.

The analyses we have conducted in our climate partnerships have revealed opportunities for decarbonization that many would have thought impossible just a few years ago. By applying and scaling up existing technologies in a cost-efficient way, the manufacturing, energy, and life science and biotech sectors could become nearly carbon neutral as soon as 2030. In addition, these sectors also provide technologies and services that have the potential to drive emission reductions across other sectors. This includes energy-saving products and services, and replacing fossil fuels with green electricity to decarbonize transportation and other industries.

Hence, our recommendations have global applications, both for countries in a nascent stage of decarbonization and for those that are already well on their way. The first key takeaway is that governments should set ambitious national emissions-reduction targets for each economic sector, thereby providing transparency and long-term certainty for companies and investors.

Second, all countries need to create conditions for a significant increase in renewable-energy production, green electrification, and improved energy efficiency. Green business is good business: wind and solar power are now the cheapest options for two-thirds of the world, and energy efficiency improves economic competitiveness while benefiting consumers.

Third, governments should adjust their regulatory frameworks to maximize investment in innovative technologies – such as heat pumps, renewable hydrogen, and biofuels – through increased public and private research, development, and deployment.

Similarly, public procurement and fiscal policies should be reformed to strengthen incentives that encourage low-carbon activities and investments. And businesses around the world need to take responsibility beyond their own direct emissions, by pushing for similar reductions across their global value chains.

## Business as usual is not an option anymore

Beyond these broad recommendations, we are keen to share with governments and other businesses insights from our specific action plans on how to decarbonize manufacturing, energy, and life science and biotech as cost-efficiently as possible. We encourage policymakers and industry leaders to build on these lessons as they shape the economic recovery and accelerate the green transition.

Collectively, we need to make sure that the COVID-19 pandemic does not lead us back to the same “business as usual” that brought on the climate crisis in the first place. By applying the model and principles we have enunciated, all societies can do more than just recover; they can make themselves future-fit, too. That is the right approach both environmentally and economically.

**The full original article first appeared on Project Syndicate [here](#) on 27 May 2020.**

## Deglobalization will hurt growth everywhere

Even if the United States turns a blind eye to deglobalization's effects on the rest of the world, it should remember that the current demand for...



Kenneth Rogoff

### **Covid-19 means not only slower growth but a significant fall in national incomes**

The post-pandemic world economy seems likely to be a far less globalized economy, with political leaders and publics rejecting openness in a manner unlike anything seen since the tariff wars and competitive devaluations of the 1930s. And the byproduct will be not just slower growth, but a significant fall in national incomes for all but perhaps the largest and most diversified economies.

In his prescient 2001 book *The End of Globalization*, the Princeton economic historian Harold James showed how an earlier era of global economic and financial integration collapsed under the pressures of unexpected events during the Great Depression of the 1930s, culminating in World War II. Today, the Covid-19 pandemic appears to be accelerating another withdrawal from globalization.

The current retreat began with Donald Trump's victory in the 2016 US presidential election, which led to tariff wars between the United States and China. The pandemic will likely have an even

larger negative long-term impact on trade, partly because governments increasingly recognize that they need to regard public-health capacity as a national-security imperative.

## A deglobalization overshoot risks hurting far more people than it helps

The risk today of a debilitating 1930s-style overshoot in deglobalization is massive, particularly if the US-China relationship continues to fray. And it is folly to think that a chaotic, crisis-driven retreat from globalization will not introduce more – and vastly more serious – problems.

Even the US, with its highly diversified economy, world-leading technology, and strong natural-resource base, could suffer a significant decline in real GDP as a result of deglobalization. For smaller economies and developing countries that are unable to reach critical mass in many sectors and often lack natural resources, a breakdown in trade would reverse many decades of growth. And that is before considering the long-lasting impact of social-distancing and quarantine measures.

The late economist Alberto Alesina, a towering figure in the field of political economy, argued that for a well-governed country in the age of globalization, small can be beautiful. But today, small countries that lack a close economic alliance with a large state or union face huge economic risks.

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*it is folly to think that a chaotic, crisis-driven retreat from globalization will not introduce more problems*

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True, globalization has fueled economic inequalities among the approximately one billion people who live in advanced economies. Trade competition has hammered low-wage workers in some sectors, even while making goods less expensive for everyone. Financial globalization has arguably had an even larger effect by increasing the profits of multinational corporations and offering new high-return foreign-investment instruments for the wealthy, especially since 1980.

In his 2014 bestseller *Capital in the Twenty-First Century*, Thomas Piketty cited rising income and wealth inequalities as evidence that capitalism has failed. But whom has it failed? Outside of the advanced economies – where 86% of the world's population lives – global capitalism has lifted billions of people out of desperate poverty. Surely, therefore, an overshoot in deglobalization risks hurting far more people than it helps.

To be sure, the current model of globalization needs adjusting, particularly by greatly strengthening the social safety net in advanced economies and – to the extent possible – in emerging markets, too. But building resilience does not mean tearing down the entire system and starting over again.

## If deglobalization goes too far no country will be spared

The US has more to lose from deglobalization than some of its politicians, on both the right and the left, seem to realize. For starters, the global trading system is part of a compact whereby the US gets to be the hegemon in a world where most countries, including China, have a stake in making

the international order work.

Aside from its political ramifications, deglobalization also poses economic risks to America. In particular, many of the benign factors that today allow the US government and American corporations to borrow vastly more than any other country are likely tied to the dollar's role at the centre of the system. And a wide array of economic models show that as tariffs and trade frictions increase, financial globalization decreases at least proportionately. This not only implies a sharp fall in both multinationals' profits and stock-market wealth (which is probably fine with some) but also could mean a significant drop in foreign demand for US debt.

That would hardly be ideal at a time when the US needs to borrow massively in order to preserve social, economic, and political stability. Just as globalization has been a major driver of today's low inflation and interest rates, shifting the process into reverse could eventually push prices and rates in the other direction, especially given what appears to be a lasting adverse supply shock from Covid-19.

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*There are other battles ahead requiring international cooperation, not least climate change*

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Needless to say, there are other battles ahead requiring international cooperation, not least climate change. It will be even harder to motivate developing economies to rein in their carbon dioxide emissions if a global trade collapse undercuts the single strongest common incentive that countries have to maintain global peace and prosperity.

Last but not least, although COVID-19 has so far hit Europe and the US harder than it has most lower-income countries, there is still a huge risk of a humanitarian tragedy in Africa and other poorer regions. Is now really the right time to undercut these countries' ability to fend for themselves?

Even if the US turns a blind eye to deglobalization's effects on the rest of the world, it should remember that the current abundant demand for dollar assets depends heavily on the vast trade and financial system that some American politicians aim to shrink. If deglobalization goes too far, no country will be spared.

**The full original article first appeared on Project Syndicate [here](#) on 03 June 2020.**



## Living with scars

Coronavirus restrictions will have long-lasting effects on many national economies. Some businesses will never re-open. Growth may be permanently lower....



### Don't graduate during a recession

Life is tough for those entering the workforce during a recession. They are likely to earn lower incomes than those entering at other times for at least the first ten years of their working [lives](#). There may also be long-term effects on [health](#). Lower-income workers seem to come off worse, but it has been suggested that even CEOs are affected. Those graduating in recession years seem more likely to run smaller, less prestigious [companies](#).

### Recessions and attitudes to risk

Past experiences can also affect people's attitudes to risk. People who see shares perform [badly](#) in their formative years are less likely to hold them years later compared with those who grew up in better times. For example, younger households in the 1980s tended not to hold shares, even if they could afford them because the experience of the 1970s bear market heavily coloured their attitudes at the time.

Slightly older folk, who had seen the bull market of the 1950s and 1960s, were more inclined to own shares. And much older people, who experienced the 1930s depression, were less likely to hold shares.

A more extreme extension of formative years on risk attitudes was found in former [US soldiers](#). Those who had fought in combat were much less likely to hold shares and unit trusts than those who had not.

The effect may also be seen in the jobs people [take](#). These days, it is often suggested that millennials prefer jobs with social meaning over financial reward. However, not everyone entering the workforce has the same experiences. By looking at the income per capita in different regions of the US and comparing the jobs taken by young people, researchers found “people who experience relatively bad macroeconomic conditions between the ages of 18 and 25 give a higher priority to income for the rest of their career”.

## Scars and luck

It's right to be concerned that coronavirus will damage the economy for many years. The scars could be deep. But not everyone will be scarred in the same way. Different generations, people in different jobs, and on different incomes will be affected differently. It will affect people's incomes and attitudes to risk well into the future.

If one common scar that develops is an aversion to financial risk, it could have macro-economic effects. Greater risk aversion may translate into higher savings, with more going to safer instruments such as bonds and fixed-term deposits than shares. Evidence from the past suggests this is possible.

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*Understanding how your past can affect your attitude to risk is important*

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At an individual and household level\*, there is also nothing wrong with this - even if it goes against ideas of financial pundits, who often encourage people to place a large proportion of their savings into shares.

Understanding how your past can affect your attitude to risk is important. It even affects professional investors. Thinker and fund manager Morgan Housel [explains](#) how a tragic event in his youth made him especially conscious of what are known as tail-end risks - low probability, high impact events - when he invests. He writes these “are all that matters”.

The extent of the disruption caused by coronavirus is likely to be large. Many will be affected but in different ways. Your perception of the financial risks you are prepared to take may change. There is no need to be ashamed of this.

\*There is a macro-economic argument that claims increased saving by many people at once will have important international [consequences](#). This issue is outside the scope of this article.

# VoxEU: Declining worker power versus rising monopoly power: Explaining recent macro trends

Since the early 80s, the labour share has been declining in the US while measures of corporate valuations and markups have increased. This article argues...



## The labour share has been falling in the US since the early 80s

Since the early 1980s, the US has seen a falling labour share and slow wage growth for typical workers. Measures of corporate valuations like Tobin's Q have risen, and measured markups have increased. And – until the current crisis – unemployment had fallen to record lows, even as inflation stayed low, suggesting a decline in the non-accelerating inflation rate of unemployment (NAIRU).

Globalisation or technological change have often been posited as causes for the falling labour share (e.g. Elsby et al. 2013, Karabarbounis and Neiman 2014, Abdih and Danninger 2017, Autor et al. 2020). But the decline in the labour share has been much more pronounced in the US than in other industrialised economies which are arguably similarly exposed to globalisation and technological change (Gutiérrez and Piton 2019). And the increases in corporate valuations and markups – as well as rising profit rates, even as the safe interest rate declines – appear to suggest that rents to capital have increased. This makes the recent evolution of the US economy difficult to explain in a perfectly competitive framework (particularly since one might have expected

globalisation to have led to increased competition for US firms, and reduced profitability). These observations have rightly led many researchers to focus on country-specific, non-competitive explanations for these phenomena.

More recently, therefore, a number of papers have argued that increasing monopoly or monopsony power can explain trends in the labour share, corporate valuations, profitability, and markups (e.g. Barkai 2017, De Loecker et al. 2020, Eggertsson et al. 2019, Farhi and Gourio 2018, Gutiérrez and Philippon 2017, Philippon 2020). But while these factors have no doubt played some role, a different factor provides a more compelling explanation: the broad-based decline in worker power in the US economy.

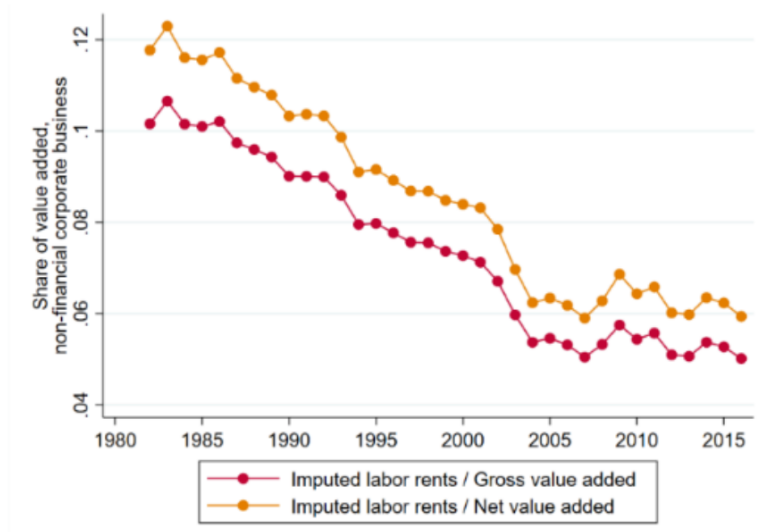
In our recent paper, we argue that the decline in worker power – as private sector unionisation and union power fell, the real value of the minimum wage declined, shareholder activism increased, and ‘ruthless’ management tactics became widespread – redistributed income from workers to capital owners, leading to a fall in the labour share, rising corporate valuations and measured markups, and a decline in the NAIRU (Stansbury and Summers 2020).

### **A key quote from the article:**

*Was the decline in worker power big enough to explain these trends in practice? We attempt to quantify the decline in labour rents over 1982-2016, using estimates of the wage premia earned by unionised workers, workers at large firms, and workers in highly paid industries. On our metric, labour rents have declined substantially: from 12% of net value added in the U.S. nonfinancial corporate sector in the early 1980s to 6% in the 2010s (Figure 1). This decline in labour rents is big enough to explain the entire decline in the labour share in the nonfinancial corporate sector (Figure 2).<sup>2,3</sup> And this in turn can explain much of the increase in corporate valuations: Greenwald et al. (2020) find that 43% of the increase in equity values over 1989-2017 can be explained by a reallocation of rewards from workers to shareholders as the labour share declined. Industry-level evidence also supports the declining worker power hypothesis. Industries with bigger declines in labour rents saw bigger declines in their labour share and bigger increases in Q and corporate profitability. In horserace regressions, declining labour rents have substantially more explanatory power than rising product market concentration. And, much of the decline in the U.S. labour share occurred in manufacturing, which (given increasing globalization) is not an industry where a large rise in monopoly power seems likely to have occurred.*

## Figure 1 - The decline in labour rents, US nonfinancial corporate sector, 1982-2016

**Figure 1** The decline in labour rents, US nonfinancial corporate sector, 1982-2016



Source: Source: Stansbury A., Summers L. (2020)

The full original article first appeared on VoxEU [here](#) on 02 June 2020.

# VoxEU - Designing regulation for digital platforms: Why economists need to work on business models

There is a developed public discourse on the need for more enforcement, regulation and legislation of digital platforms. This article asks how economists...



## Where are we today on digital platform competition?

A lot of work has been done over the past two years on laying out systematic foundations for our understanding of some key characteristics of large digital platforms.

One area where issues are well understood is dynamic competition *for* the platform. From the original network effects models of the 1980s to the Microsoft era, we have theories (most notably, Carlton and Waldman 2002 and Choi and Stefanidis 2001) which rationalise why a platform might want to undermine certain complementary services because they constitute potential dynamic threats to the platform's core monopoly. These models rationalise well the historic Microsoft cases and subsequent enforcement against Google in Europe. Further literature (Choi and Jeon 2020, Etro and Caffarra 2017) also helped us understand how pricing constraints – e.g. the need to set a zero price on certain consumer-facing services – can generate inefficiencies which incentivise colonisation of adjacent markets on the part of platforms.

But there are gaps in our understanding on how platforms behave and what this means for welfare.

The main issue to be cracked for the forthcoming major regulatory effort in Europe is competition on the platform. How does the owner of a proprietary platform set the 'rules of the game' for third parties that operate and create joint value on their ecosystem? What about cases where the platform owner also supplies services in competition with these third parties? While control by the

platform owner might generate efficiencies (e.g. if it internalises negative spillover effects on its quality, for example, in a way that other platform participants do not), it is also right to worry about harmful effects. This 'dual role' has come under major scrutiny in Europe, with investigations inter alia into the commissions Apple sets for in-app purchases of digital goods and the operation of Amazon's online marketplace.

## A key quote from the article:

The research we have briefly mentioned here suggests that business models matter fundamentally when one is evaluating the dual role of platform owners as umpires and players in their ecosystem. At a general level, platforms that monetise on the consumer side (through the sale of a product, or consumer-side commissions on transactions) are those that best internalise the interest of consumers in their interactions with third-party players, relative to ad-funded platforms. [..]

We need a better understanding of the magnitude of the problems businesses are respectively trying to solve; how the different players respond to changes in prices or rules; how consumers differ and how many are of which type; how to measure overall welfare effects, not just partial analyses; and therefore how to determine which model best fits the data and which factors are most important.

For economists, what other models do we need? Do we have models that describe these situations well? What insights and empirical predictions can be drawn?

The full original article first appeared on VoxEU [here](#) on the 4 June, 2020.

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