Project Syndicate: Avoiding a Climate Lockdown

The world is approaching a tipping point on climate change, when protecting the future of civilization will require dramatic interventions. Avoiding this scenario will require a green economic transformation – and thus a radical overhaul of corporate governance, finance, policy, and energy systems, **writes Mariana Mazzucato for** **Project Syndicate**

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The climate crisis and the Covid-19 pandemic are interconnected

As Covid-19 spread earlier this year, governments introduced lockdowns in order to prevent a public-health emergency from spinning out of control. In the near future, the world may need to resort to lockdowns again – this time to tackle a climate emergency.

Shifting Arctic ice, raging wildfires in western US states and elsewhere, and methane leaks in the North Sea are all warning signs that we are approaching a tipping point on climate change, when protecting the future of civilization will require dramatic interventions.

Under a “climate lockdown,” governments would limit private-vehicle use, ban consumption of red meat, and impose extreme energy-saving measures, while fossil-fuel companies would have to stop drilling. To avoid such a scenario, we must overhaul our economic structures and do capitalism differently.

Many think of the climate crisis as distinct from the health and economic crises caused by the pandemic. But the three crises – and their solutions – are interconnected.

Covid-19 is itself a consequence of environmental degradation: one recent study dubbed it “the disease of the Anthropocene.” Moreover, climate change will exacerbate the social and economic problems highlighted by the pandemic. These include governments’ diminishing capacity to address public-health crises, the private sector’s limited ability to withstand sustained economic disruption, and pervasive social inequality.

These shortcomings reflect the distorted values underlying our priorities. For example, we demand the most from “essential workers” (including nurses, supermarket workers, and delivery drivers) while paying them the least. Without fundamental change, climate change will worsen such problems.

The climate crisis is also a public-health crisis. Global warming will cause drinking water to degrade and enable pollution-linked respiratory diseases to thrive. According to some projections, 3.5 billion people globally will live in unbearable heat by 2070.

Addressing this triple crisis requires reorienting corporate governance, finance, policy, and energy systems toward a green economic transformation. To achieve this, three obstacles must be removed: business that is shareholder-driven instead of stakeholder-driven, finance that is used in inadequate and inappropriate ways, and government that is based on outdated economic thinking and faulty assumptions.

The current crisis is an opportunity to drive sustainable growth

Corporate governance must now reflect stakeholders’ needs instead of shareholders’ whims. Building an inclusive, sustainable economy depends on productive cooperation among the public and private sectors and civil society. This means firms need to listen to trade unions and workers’ collectives, community groups, consumer advocates, and others.

Likewise, government assistance to business must be less about subsidies, guarantees, and bailouts, and more about building partnerships. This means attaching strict conditions to any corporate bailouts to ensure that taxpayer money is put to productive use and generates long-term public value, not short-term private profits.

In the current crisis, for example, the French government conditioned its bailouts for Renault and Air France-KLM on emission-reduction commitments. France, Belgium, Denmark, and Poland denied state aid to any company domiciled in a European Union-designated tax haven, and barred large recipients from paying dividends or buying back their own shares until 2021. Likewise, US corporations receiving government loans through the Coronavirus Aid, Relief, and Economic Security (CARES) Act were prohibited from using the funds for share buybacks.

These conditions are a start, but are not ambitious enough, either from a climate perspective or in economic terms. The magnitude of government assistance packages does not match firms’ requirements, and the conditions are not always legally binding: for example, the Air France emissions policy applies only to short domestic flights.

Far more is needed to achieve a green and sustainable recovery. For example, governments might use the tax code to discourage firms from using certain materials. They might also introduce job guarantees at company or national level so that human capital is not wasted or eroded. This would help the youngest and oldest workers, who have disproportionately suffered job losses owing to the pandemic, and reduce the likely economic shocks in disadvantaged regions already suffering industrial decline.

Finance needs fixing, too. During the 2008 global financial crisis, governments flooded markets with liquidity. But, because they did not direct it toward good investment opportunities, much of that funding ended up back in a financial sector unfit for purpose.

The current crisis presents an opportunity to harness finance in productive ways to drive long-term growth. Patient long-term finance is key, because a 3-5-year investment cycle doesn't match the long lifespan of a wind turbine (more than 25 years), or encourage the innovation needed in e-mobility, natural capital development (such as rewilding programs), and green infrastructure.

Markets alone will not lead the green revolution

Some governments have already launched sustainable growth initiatives. New Zealand has developed a budget based on "wellbeing" metrics, rather than GDP, to align public spending with broader objectives, while Scotland has established the mission-oriented Scottish National Investment Bank.

Along with steering finance toward a green transition, we need to hold the financial sector accountable for its often-destructive environmental impact. The Dutch central bank estimates that Dutch financial institutions' biodiversity footprint represents a loss of over 58,000 square kilometers (22,394 square miles) of pristine nature – an area 1.4 times larger than the Netherlands.

Because markets will not lead a green revolution on their own, government policy must steer them in that direction. This will require an entrepreneurial state that innovates, takes risks, and invests alongside the private sector. Policymakers should therefore redesign procurement contracts in order to move away from low-cost investments by incumbent suppliers, and create mechanisms that "crowd in" innovation from multiple actors to achieve public green goals.

Governments should also take a portfolio approach to innovation and investment. In the United Kingdom and the United States, wider industrial policy continues to support the information-technology revolution. Similarly, the EU's recently launched European Green Deal, Industrial Strategy, and Just Transition Mechanism are acting as the motor and compass for the €750 billion ($888 billion) "Next Generation EU" recovery fund.

Finally, we need to reorient our energy system around renewable energy – the antidote to climate change and the key to making our economies energy-secure. We must therefore evict fossil-fuel interests and short-termism from business, finance, and politics. Financially powerful institutions such as banks and universities must divest from fossil-fuel companies. Until they do, a carbon-based economy will prevail.

The window for launching a climate revolution – and achieving an inclusive recovery from Covid-19 in the process – is rapidly closing. We need to move quickly if we want to transform the future of work, transit, and energy use, and make the concept of a "green good life" a reality for generations to come. One way or the other, radical change is inevitable; our task is to ensure that we achieve the change we want – while we still have the choice.

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