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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Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com