

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](#)**



Source: Shutterstock

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.

The full and original article first appeared on Project Syndicate [here](#) on 22nd Sep 2020

Author

Alissa Lefebre

Economist

alissa.lefebvre@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
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

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.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.schroeder@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