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Article

Will Climate Action Survive Covid-19?

A sustainable recovery needs to be more than just 'green'



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A sustainable recovery needs to be more than just 'green'

The economic calamity triggered by the Covid-19 pandemic leads many to conclude that action on climate change will have to wait. Talk of a 'green recovery' is in danger of remaining just talk, as the urgent priority of saving lives and livelihoods consumes policy-makers' attention.

This is troubling, because climate change is ultimately a much bigger problem than the pandemic. At least with the virus, there's the hope for a vaccine, perhaps within a year or two. Tackling the existential threat of climate change is a more complex, longer-term challenge.

So how can climate action avoid becoming another casualty of Covid-19? It will have to bind itself into the immediate worries about jobs. A green recovery is only likely to take off as part of a broader sustainable recovery that supports the needs of people as well as the planet. And for such a recovery to be both economically and politically sustainable, it will have to avoid polarised approaches to society and business.

In many ways, climate action advocates are encouraged by the immediate lessons of the pandemic. There is newfound respect for scientists, whose warnings about the threat of pandemics were ignored by many governments. This should reinforce attention on the compelling

scientific evidence on the climate change challenge. The heavy toll exacted on countries that failed to react quickly to the pandemic has alerted everyone to the power of [exponential growth](#). Our lack of preparedness will now fuel a craving for safety, security and resilience in the face of future threats.

We are now all too aware of the fragility of modern life, and of our mutual interdependence. Enforced social distancing has made us acutely conscious of our social nature and how we are linked into local as well as global networks. The sudden emergence of neighbourliness and mutual aid groups shows our capacity for altruistic behaviour. Our willingness to take rapid collective action, make sacrifices, and change norms shows a remarkable capacity to change. We have also been reminded of our connections with nature.

These lessons show how we could rise to the challenge of climate change. But will we? The pandemic has inflicted enormous damage not just on lives and our physical and mental well-being, but also on our livelihoods and financial well-being. Mass unemployment and bankruptcies will dominate the agenda in many countries even beyond the end of the pandemic.

The Pandemic Pushback

Already, many national policymakers have pushed back against the idea of making climate action a priority in the recovery from the pandemic. With the focus on restoring income and jobs, the green credentials of the businesses being rescued are being largely overlooked. In the US, efforts by Democrats to add climate change provisions into the US stimulus bill failed, and the Trump Administration announced a rolling back of automobile [fuel efficiency standards](#). Meanwhile, [China](#) delayed its automobile emissions standards and in Europe some countries are expressing caution about how quickly to pursue the EU's green agenda. None of this points to progress ahead of the global COP 26 climate talks, despite them having been postponed until next year.

Meanwhile, the collapse in oil prices and corporate profits have weakened the incentives and wherewithal to invest in the green energy transition. With lower income groups under particular pressure in the pandemic-induced recession, there is resistance to the idea of stepping up spending on climate action or taxing carbon and energy. 'Brown' jobs are seen as better than no jobs.

Some climate action advocates are heartened by the fact that lockdowns and social distancing have dramatically [reduced travel](#) and energy-intensive forms of consumption, with visible benefits in the form of a sudden drop in pollution. Yet there is room to doubt how sticky these behaviour changes will be. While people can recognise the local benefits of changing their behaviour to mitigate the pandemic, for most climate change is a less immediate and evident danger.

Indeed, it could be a different story once the pandemic is over. People may crave a 'return to normal'. Success in developing a vaccine may facilitate this, by eliminating the need for social distancing. And in any case, some adopted behaviours may not be climate friendly. Some people may be reluctant to return to using public transport and use cars instead. They may also want lower density housing and offices, which might support the demand for real estate.

Similarly, some new corporate behaviours might also work against the drive to reduce emissions of greenhouse gases. The disruption of the pandemic, which highlighted the world's reliance on China's manufacturing, is likely to cause many businesses to seek to increase their resilience and shorten supply chains. This may be at the expense of efficiency and lead to higher resource use.

The risks of hyper-connectivity revealed by the pandemic have also been seized upon by populist politicians to justify their nationalist agendas. This poses perhaps the most serious threat to securing the global co-operation needed to deliver climate action. The idea that self-reliance is critical has been given further momentum by the fact that even mainstream democratic governments have joined populists in seeking national solutions to the pandemic, albeit partly because health is largely the preserve of national policy.

Right-wing populists, who are typically climate change sceptics, have sought to deflect the blame for the pandemic onto foreigners. While some of those in power have faced criticism for their handling of the pandemic, the fact that it has amplified inequality may feed further polarisation and help other populists to gather support.

Particularly troubling is the blame game that has broken out between the [US and China](#). While this is not yet a new Cold War, it challenges the prospects for global agreement on climate action. Moreover, the threat of further tension with China over trade also threatens the supply of renewable energy equipment and raw materials, which it dominates.

Why all is not lost for climate action

Yet despite these formidable headwinds, all is not lost for advocates of climate action. Before the pandemic, climate change was at the very top of the global policy agenda. Indeed, given the need for ongoing stimulus to sustain recovery, there is the opportunity for pre-existing climate action plans to be accelerated and repurposed to this end. A prime example would be the EU's Green New Deal. The UN's disaster recovery slogan "Build Back Better" has already been co-opted to this cause.

One factor which may help the green cause is that sceptical populist regimes are facing criticism for slow or disorganised responses to the pandemic. They may try to spin their way out of blame, but the relative success of other regimes will be hard to suppress.

The US is shaping up as a crucial battleground. While the final reckoning on the pandemic is some way off, it is already clear that President Trump has not enjoyed the same popularity bounce that other leaders have. Indeed, following public anger over his response to widespread protests over police violence, [polls](#) show him falling further behind his Democratic challenger Joe Biden in the run-up up to the elections in November. Were [Biden](#) to win, he has pledged that the US would re-join the Paris climate agreement and commit to net zero greenhouse-gas emissions by 2050. And if Democrats retake the Senate, too, some features of the Green New Deal could even be on the table.

At the global level, the ending of the pandemic may also present a window of opportunity to mobilise popular support for action on climate change. Governments have shown their ability to

take radical action and enforce drastic changes in social behaviour. This will give them credibility as agents of change. On top of this, success in the global effort to produce a vaccine would be a major win for cross-border cooperation.

While the sense of solidarity engendered by the fight against the pandemic may be frayed by its unequal impact, the resulting sense of injustice could be channelled into climate activism. This possibility is reinforced by the damage inflicted on the livelihoods of the young, who tend to be more concerned about green issues.

Moreover, the longer the pandemic persists, the more the new climate-friendly behaviours are likely to become embedded. Surveys are already starting to confirm the psychologists' beliefs that repetition is turning them into habits. The step shift towards digital interaction and commerce may therefore permanently lower the growth in travel and resource use. While there will still be craving for physical interaction, preferences may be tilted to fewer but higher quality interactions.

The grass roots support for climate action would also be given added momentum if the pandemic is accompanied, or quickly followed, by a further round of exceptional climate events such as storms, fires and floods. This would snap attention back to the climate problem, particularly as it would heap more pressure on already-stretched emergency response resources.

Yet we cannot escape the fact that the appetite for climate action will be largely dictated by the economic hangover from the pandemic. Here, the fact that our more digitalised lifestyles are cheaper is encouraging. Less commuting, travel, and dining out will bring welcome relief to household budgets. Hard-pressed and debt-burdened businesses will also gratefully embrace any cost savings that stem from digitalisation and remote working, and some of this will feed through to the benefit of consumers.

But this brings us back to the most pressing challenge posed by the pandemic legacy. Digitalisation and corporate cost-cutting may translate into further job losses that make it all the harder to reduce the current spike in unemployment.

To gain popular support, the narrative needs to shift from a 'green recovery' to a broader 'sustainable recovery', one with the welfare of people at its heart. After all, climate action is but one of the UN's 17 [Sustainable Development Goals \(SDGs\)](#), and it's not for nothing that people come first in the '[triple bottom line](#)' of people, planet and profits. So amid the economic hardship that will flow from the pandemic, income and jobs will clearly be the top priority.

Since the pandemic is hitting lower income groups particularly hard, a recovery in the labour market will serve to reduce inequality. But to be truly sustainable, politically as well as economically, the recovery will also have to develop broad support across society and business.

This is a particular challenge in societies that are already highly polarised, not just politically, between left and right, but also culturally between "open" and "closed" identities. Here the US is again critical. The risk is that strongly Progressive Democrat policies might jeopardise the growing support from moderate Republicans for climate action. This could ultimately lead to a renewed backlash from the populist right.

This means seeking a smart suite of policies balancing the green gains from investment and subsidies with the political pains from tax and regulation. Those pains will need to be distributed in a socially tolerable manner. As France's experience has shown, a regressive tax that hits rural commuters or other politically influential constituencies will face strong resistance.

To some extent the challenge be mitigated by central banks monetising the pandemic-induced spike in public and private borrowing. But this will still leave a long shadow of debt to be worked off in a way that is acceptable across social groups and across time. Thankfully, the likelihood that interest rates will remain low means that there is no need to hurry.

The pursuit of a sustainable recovery calls for a balanced partnership between government and business. Climate action that leans too heavily on 'big government' solutions of public investment, progressive taxation and regulation would undermine the valuable contribution that could come from private investment, innovation and market mechanisms. Moreover, demonising carbon-heavy 'brown business overlooks the important role of the [fossil fuel and nuclear industries](#) in the multi-decade transition to the net zero emissions world. This means that some state support may be needed to deliver the required investment.

Fortunately, even prior to the pandemic, the idea of sustainability and inclusive growth was gaining ground in business circles. Companies and investors have increasingly championed a shift from the model of shareholder capitalism to one of [stakeholder capitalism](#), embracing broader sustainability goals. Investors will have noted that companies leading in this direction have outperformed during the pandemic.

Nevertheless, the early movers in business still face a collective action problem. While investor attitudes are starting to change more rapidly, most shareholders remain focused on short term returns, particularly after the pandemic-induced losses. This means that businesses stressing long-term sustainability risk punishment in the financial markets. Governments and regulators will need to recraft the rules of the game if they wish to accelerate the change.

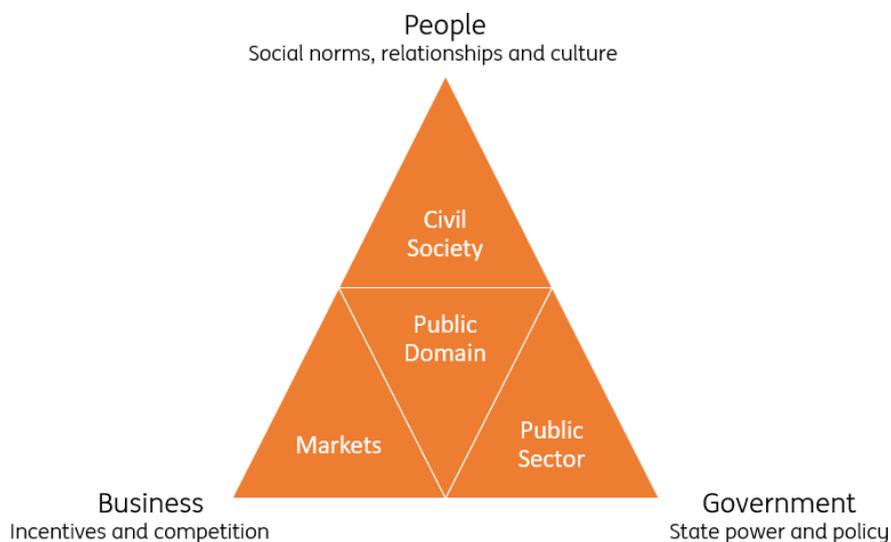
The emergence from the pandemic provides governments with an historic opportunity to institutionalise the shift towards sustainable business practices. It is true that in the rush to keep businesses afloat many governments have so far been reluctant to attach 'green strings' to their emergency funding and loans. But there are likely to be more opportunities to do so before the pandemic is behind us. The health emergency has led to a collapse in carbon-heavy travel and transport activity. This means that whole sectors such as airlines face existential threats, which gives governments enormous leverage to attach conditions to their support ^[1].

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Indeed, with so much in flux and the previously unthinkable turning suddenly into reality, there is scope for radical legal and institutional changes to embed stakeholder capitalism. Steps could include broadening board representation to workers and other stakeholders, more active support of small business and start-ups, and cultivating more social business models such as local co-operatives. Such steps would also develop the engagement of civil society.

Sustainable Recovery Rests on Three Pillars



Source: ING

Having protected the downside for business, governments, on behalf of society, are also in a strong position to claim equity participation in the potential profits that will flow in recovery. This would not only avoid overburdening business with debt but also give governments the opportunity to spread the returns on capital to taxpayers and workers. In some cases, governments may be forced to nationalise failing companies or restructure whole sectors.

Moreover, governments have the opportunity to drive private as well as public investment to meet their sustainability goals. Private investment can be incentivised by setting or accelerating specific long-term deadlines for phasing out activities that generate high levels of emissions. Public investment and targeted subsidies and grants can have a catalytic effect. A recent [survey](#) of 231 policymakers and economists identified a range of attractive job-creating green investments, including clean physical infrastructure and building efficiency retrofits. And to boot, sustained low interest rates will make funding these investments more affordable.

The accelerated digitalisation of economic activity enforced by the pandemic lockdowns and travel restrictions is likely to be sustained. Like renewable energy, the marginal costs of digital technology are low and falling rapidly, so the constraint on their adoption lies more on the upfront investment in infrastructure and capacity. Government incentives to foster such investment will therefore have multiple benefits in terms of stimulating jobs, accelerating technical progress and garnering the climate benefits of the shift from physical to digital activity.

That said, while the rollout of the new technologies will create new jobs, it will also destroy old ones. Supporting the displaced workers, and funding the investment, will add more pressure on public finances. So a sustainable recovery will also need a new societal settlement on tax burdens. There is likely to be irresistible pressure to increase taxes on the digital winners who would otherwise scoop a disproportionate share of the gains from accelerating digitalisation. Moreover, the fact that the marginal costs of the new digital products and services are falling creates the space for raising taxes without putting upward pressure on consumer prices.

Given the dominance of US and Chinese tech giants, digital taxes will continue to be a source of geopolitical friction. Nevertheless, the tech companies are tuning into the fact that public tolerance for their 'winner takes all' economics is crumbling. Indeed, some tech leaders have even joined the chorus calling for radical support of displaced workers by more evenly sharing the gains of digitalisation through ideas such as universal basic incomes, [universal basic dividends](#) or state-subsidised or [guaranteed jobs](#).

In a similar fashion, the recent collapse in energy prices presents a golden opportunity to accelerate progress on carbon taxes and subsidies. Raising taxes and [cutting subsidies](#) on carbon-intensive activities is one green policy shift that enjoys near universal support among economists. Crucially, it is enjoying growing support across the political spectrum and even from [fossil fuel producers](#). Even in the US, where climate change scepticism has been prevalent, an increasing number of Republicans are endorsing the use of the price mechanism.

By directly incentivising consumers and producers to curb emissions, economists see carbon taxation (or trading of emissions permits) as the most efficient way of addressing the problem. And by acting while energy prices and the general level of inflation are low, the burden will appear less onerous. In any case, the obvious way to make higher and broader carbon taxation popularly acceptable is to give the revenues back to people via general tax cuts or flat rate payments – so-called 'carbon dividends'.

One such proposal in the US, the [Baker Shultz carbon dividends plan](#), which involves CO2 emissions taxes beginning at \$43/ton, would result in a family of four each receiving \$2,000 a year. According to [US Treasury calculations](#), the lowest 10% of earners would see their net incomes rise by 8%, while the highest 10% would see a net reduction of only 1%. This is even before factoring in the benefits of reduced pollution, traffic, accidents, illness, extreme weather events, and dependence on energy imports.

Domestic fairness and support aside, another issue is how to achieve cross border fairness and co-ordination on increasing carbon taxation. There is a risk that some countries will try to gain competitive advantage by not imposing higher carbon taxes and free-ride on the efforts of others to reduce emissions.

One way of addressing this is to impose carbon border taxes on imports from countries that do not tax to the same level. That could encourage some countries to raise their own taxes to secure the revenue, but it might also unfairly hit poorer countries that have low emissions. [Raghuram Rajan advocates](#) tackling this with a redistributive plan for a global carbon reduction incentive.

This would mean that the more a country emitted above the per capita world average, the more it would pay into an incentive fund to distribute to below-average emitters. He suggested that the US could fund its contribution by modifying the Baker Schultz plan to divert some of its carbon dividends from richer households.

More generally, financing the recovery in a sustainable, more socially inclusive way will involve a broader shift of the tax burden away from labour income, at least for the lower and middle income groups. Aside from higher taxes on digital activities and carbon emissions, a creative search is needed. Longstanding targets for more progressive taxes on profits, wealth, property, and land will doubtless be in the frame.

But the green agenda may also be served by higher taxes on the consumption of other resources. The developed world's addiction to more 'stuff' is surely ready to be addressed. A good example would be taxes to reverse the upward trend in the size of cars and SUVs, a trend which is strangely at odds with the fact that the average vehicle occupancy in the developed world is around 1.5.

A window of opportunity for a full spectrum policy shift

Radical tax reform is part of the full spectrum policy shift needed for a broadly sustainable recovery. This shift would lead to a radically different world. How far will we move in this direction? This is not yet clear, since it will depend on the final reckoning on the pandemic and its global political fallout. What is clear is that the increasingly polarised nature of politics, not least in the US, points to a binary outcome. And it may soon become clear whether or not we will see a leap forward before the pre-pandemic behaviours reassert themselves. With the US elections in November, and a vaccine hoped for in the months after, we will see if the window of opportunity opens up.

For governments, the window of opportunity on climate action reflects the popular recognition of the importance of competent government, not just in health, but in mobilising business and society. This is not so much about 'big government' but 'smart government'. So while regulation has its place at a strategic level, one of the lessons of the pandemic is the agility that came from sweeping away unnecessary bureaucracy. Loose monetary policy and low interest rates also open the window for funding that a sustainable recovery calls for.

Governments also have a window of opportunity to develop a new social contract with business. They could leverage dependence of businesses on state support to enforce change towards sustainability. With so much in flux and the previously unthinkable turning suddenly into reality they could institutionalise the growing willingness of business to embrace stakeholder capitalism. They could also wean businesses off debt in favour of broader equity participation.

The shift towards stakeholder capitalism would also complement the sustained mobilisation of civil society. The newfound recognition of the vital role of the service sector, small businesses and start-ups in generating jobs and serving local communities needs to be embraced by both government and big business. Local communities, co-operatives and social organisations could all support a grass roots shift towards sustainable growth and climate activism.

Yet markets and market mechanisms are also part of the window of opportunity for a sustainable recovery. Radical changes to taxes and subsidies, combined with new regulatory frameworks for markets, could incentivise rapid change in private consumption and investment. Tumbling prices and the acceleration in the adoption of new technology may sustain a green-friendly digitalisation of the economy and provide an opportunity to step up taxes on digital services and supernormal profits.

Likewise, low energy prices offer a chance to kickstart the shift towards taxing carbon from taxing labour. The revenues from taxing carbon emissions, and the use of other resources, could be used to reduce taxes on income and employment or introduce universal basic incomes and dividends.

In these ways, climate action does not have to fall victim to the colossal economic damage caused by the Covid-19 pandemic. Indeed, there is a unique opportunity for it to form part of a broader sustainable recovery that supports the needs of people as well as the planet. For true sustainability will ultimately depend on healing divisions in the economy, politics, society and business.

A shorter version of this report was published by [Project Syndicate](#) under the title “A Sustainable Recovery Must Be More Than Green”.

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