Five ideas to turn the COVID-19 recovery into a global green new deal

Ekaterina Bessonova

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COVID-19 is an unprecedented public health crisis, but it also offers a unique opportunity to revive our societies. Here, SEI experts make recommendations for a sustainable recovery, focusing on policies to promote equity, resilience and green growth.

Economies around the world are reeling from the impacts of restrictions on the movement of people, goods and services, causing severe economic pain with dramatic social consequences. While the IMF predicts the pandemic may shrink the global economy by 3%, there are still many unknowns. Yet worst-case scenarios can be avoided if we tailor responses to the crisis with long-term sustainability in mind.

SEI experts Ivonne Lobos, Zoha Shawoo, Claudia Strambo, Kevin Adams, Eric Kemp-Benedict, Corrado Topi, Pete Erickson, Derik Broekhoff, Aaron Maltais and Gregor Vulturius have developed five recommendations to ensure that the measures taken now mark an entry point to a global green new deal and ensure a sustainable, just and resilient recovery.

1. Put equity before economic growth

The pandemic has put inequality and injustice under the spotlight. In richer countries, it's clear that people who don't have the option of working from home are more exposed to the virus and often have more insecure employment conditions. In the US, many people don't have access to free healthcare or paid sick leave. People with "essential" jobs in the service industry, and the poorest in society, who in most of the world's countries live hand-to-mouth, are all at much greater risk of contracting COVID-19. And because these vulnerable populations can't, or can't afford, to stay at home and don't have access to essential services, like clean water, sanitation, housing and health, It's likely to increase the spread of the disease, magnifying impacts for society as a whole. Inequality also undermines joint action and coordinated responses: where equality is greater, people focus less on their differences and are more likely to act for the public good.

As governments prepare to protect economies through monetary and financial market measures, and through fiscal social stimulus plans, now is the time to lay the foundations for more just and sustainable societies. Green recovery measures, financing and investment need to be equitable, first and foremost, and prioritize the most vulnerable while building resilience and adaptive capacity at the same time. We must also take the opportunity to examine which elements of the current system we want to preserve and which to transition away from, for instance measuring prosperity with GDP.

2. Reform subsidies

Subsidies are commonly employed for restructuring economies. Essentially, governments can use a subsidy to provide a financial benefit or reduce regulatory requirements for a certain set of industries. Clean energy, nature conservation, public transportation, and healthcare deserve substantial and continuous support because these sectors help people stay healthy and productive.

At the same time, there is an opportunity to remove subsidies for industries that are less equipped for the future, like fossil fuels, which amount to at least US$ 400 billion annually. The economic argument for renewable energy is too strong to be ignored, and countries that continue to place bets on fossil fuels are putting their economies at risk, in terms of public health and climate stability. The ways in which fossil fuel subsidies can be removed depends on local realities. But with oil and gas prices at record lows, consumer subsidies could be removed almost immediately. Energy access and affordability can be achieved without these subsidies through targeted protections for basic needs, providing a robust safety net and releasing inevitable political pressures if prices were to rise again.

Removing subsidies to fossil fuel producers is more difficult, but just as important. Many political leaders and processes are taken captive by the fossil fuel industry, which is how executives and shareholders skip the line for COVID-related government support, while consumers and workers are left behind. Instead, these resources can be used for social support directly, fortifying low-carbon transitions.

3. Introduce carbon taxes

A carbon tax is the simplest and most comprehensive way to steer economic activity towards clean, low-carbon energy, goods, and services. The beauty of a carbon tax is that policymakers do not have to identify every process, technology, or activity that gives rise to greenhouse gas emissions and regulate them individually. Instead, by putting a price on carbon, a tax encourages producers and consumers to find cleaner alternatives, and promotes innovation across the economy in ways that are impossible to individually anticipate.

Carbon taxes are regressive, affecting lower-income households more than wealthier ones in relative terms. This is why every existing carbon tax has some mechanism to alleviate the effects on poorer consumers. For example, taking some of the revenue the tax generates and redistributing it to those with lower incomes – a "tax and dividend" approach – can go a long way toward easing disproportionate burdens. These households will still find carbon-intensive energy and products more expensive, but their total spending power does not have to change.

4. Invest sustainably

It's vital that recovery measures avoid increasing the dependency on carbon-intensive sectors, such as fossil fuels. This would not only worsen climate prospects, but also increase the risk of stranded assets.

Sustainable investment vehicles, like environmental, social and governance (ESG) funds, have been comparatively resilient in the financial markets and shown strong momentum among financial investors over the past few years. Of course, it is too early to say if these investment vehicles will maintain resilience throughout the COVID-19 crisis and its aftermath, but the massive economic and financial risks of being unprepared for crises and failing to invest in global public goods are painfully obvious.

Therefore, public funding needs to go to green, job-intensive sectors, such as renewable energy, improvement of power grids, public transport infrastructure, energy efficiency, regenerative agriculture, and environmental rehabilitation.

Simultaneously, public policy needs to steer private finance in the same direction. The allocation of public resources to struggling carbon-intensive companies should come with

mandatory commitments to significantly reduce carbon emissions. In addition, regulators should oblige financial firms to better disclose social and climate risks in their portfolios, which can help them to be more resilient too.

A key challenge is how to ensure sustainable investments in the long-term. In many countries, the 2008 financial crisis was followed by a long period of austerity. If this pattern repeats, a global green new deal will not materialize. Measures for fiscal balance, including removal of fossil fuel subsidies and introducing carbon taxes, are ways to reduce this risk.

5. Cultivate resilience

The COVID-19 pandemic has uncovered the shortcomings of traditional approaches to risk assessment, yet also provides an opportunity to transform the way we understand and value resilience. In many risk assessment approaches, analysts try to balance both the severity of plausible impacts and the likelihood they will occur. Yet as coronavirus has demonstrated, this can leave us unprepared for events that are high-severity and low-likelihood. Moreover, climate change will complicate this picture significantly, increasing the frequency and severity of extreme weather events.

In a post-COVID world, it will be necessary not only to invest in reducing emissions of greenhouse gasses, but also to actively construct more resilient societies.
While over time the impacts of COVID-19 will decrease, our uncertainty about the future will not, particularly as climate change continues to put our natural and social systems under stress. In this context, it will be critical to invest in resilience, including by preparing for high-severity, low-likelihood events, and building the structures for international cooperation that will help us inclusively manage complex risks.

Will this crisis reverse the progress of sustainable development or is it an opportunity to reset the global system? The answer is in our hands.

Ekaterina Bessonova is a Communications Officer. Ekaterina leads digital communications of the Swedish International Agriculture Network Initiative, SIANI and for the SEI Initiatives on Sustainable Sanitation, Behaviour and Choice and Governing Bioeconomy Pathways. She joined SEI in April 2013.

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Questions should be directed to joan@mahbonline.org