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CAN WE USE THE COVID-19 CRISIS TO MOVE TOWARDS A MORE SUSTAINABLE ECONOMY?

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The lockdown to which many countries have been subject in order to slow the spread of COVID-19 is having a deep impact on our economies and on the environment, one that most of us are feeling personally. Although it is more difficult to perceive right now, the recovery phase will have an even deeper and more lasting impact. The good news is that, if we make the right decisions, we can make this long-term impact positive. In the middle of the current global tragedy that this virus is bringing, this may provide some hope and help us convert the crisis into an opportunity to achieve a more sustainable economy. This article reflects on the relevance of the short-term impacts, and on how to create a positive long-term impact with the way we conduct the recovery phase.

Short-term impacts and lessons learned

The short-term impacts on the environment are quite irrelevant once put into perspective. The current reduction in mobility (and the corresponding reduction in the demand for oil), and the decrease in the demand for the natural gas and coal that feed our industries and shops is indeed causing a drastic reduction in CO_2 emissions – some put it at 20 per cent of annual emissions – as well as an even more noticeable reduction in urban pollution levels.

However, these will return to their pre-COVID-19 levels once we get back to our normal, or new-normal, lives. One of the major lessons we can draw from this crisis – besides the acknowledgement of the fragility of our societies when confronted with the forces of nature – is the extent of our capacity to affect the environment. Commoner, Holdren and Ehrlich showed us with their IPAT identity (later particularized to climate change by Yoichi Kaya) that our impact on the environment can be disaggregated into several explanatory forces: population, affluence, and technology (which in turns determines energy or carbon intensity). Of these, affluence (or economic activity) has been the most important since the 1970s, as shown for example by the Intergovernmental Panel on Climate Change, with technology not yet able to counteract it.

Therefore, when we are able to get back to our jobs and other economic activities, and at least in the short term (until we are able to change our technology), pollutant emissions will climb back again. In cities we may see some positive impacts on the pollution-induced health damages driven by instantaneous concentrations of pollutants. In the case of CO_2, however, this will be only a minor blip, without a significant change in its concentration in the atmosphere and its impacts on climate.

Can we draw other, more positive lessons from the fight against COVID-19 for the fight against climate change? This seems unlikely. Although some commentators have argued for this, the two problems are too different. COVID-19 is a much closer and more urgent threat right now, and the sacrifices required are expected to be limited in time; climate change still looms far away, and will require permanent changes in the way we live. We seem to be more certain about the impact of our actions on COVID-19, and hence more willing to spend the resources required, than to invest them fighting climate change.

What about the reduction in mobility and consumption imposed by the lockdown? Will we be able to keep some of the good parts when we don't need to? Will we be able to enjoy similar levels of wellbeing without that much mobility and consumption? That will depend on two aspects: how we change our behaviour, and how we direct the investments associated with the recovery phase.

There appears to be little reason for optimism about the change in behaviour. While we may have learned to appreciate the bright side of remote work or videoconferences (if we survive them), many people are likely to return to leisure travel with even more enthusiasm – as occurred after 9-11 – especially while oil prices remain low. If we want to keep the positive changes in behaviour, we will need to reinforce them with monetary signals or even constraints. But we will also need to create an economy that does not depend that much on our behaviour to be sustainable. That means investing in the right economic sectors, and in the right technologies. This is the focus of the second part of the article.

The much-needed transformation of the economy

Getting out of the dramatic economic situation in which many countries have found themselves as a result of lockdown measures will require huge amounts of money, already promised by the European Central Bank and the US Senate – an economic stimulus much larger than the one used in the 2008 financial crisis.

The temptation will be there to use this money for short-term expenses (with immediate electoral returns), and to try to remove any constraints on spending it easily, such as environmental requirements or environmental taxes. But that temptation should be fought earnestly, even more in the current populist-prone political situation. What to do instead?

First, do not spend the money: invest it. And invest it wisely. Because trying to avoid the temptation described above may drive some into throwing the money away into seemingly green, rent-seeking businesses, without actually changing the economic model into one that is less consumerist and more sustainable. One way to invest the money to maximize the chance of achieving a positive, long-term economic impact is described below.

First, it is important to differentiate between the first stage of the stimulus, in which the focus should be on ensuring that the money arrives quickly to households and businesses, and the second stage, in which there is more time to think and plan carefully.

In the first stage there should be few constraints, to ensure speed. But that does not mean that governments should abstain from helping decide how households and firms use the money. In particular, we should make sure that it is not used for the wrong purposes. For example, if we consider bailing out companies, we should make that conditional on sustainable strategies (including for decarbonization). But this has limits: it is unrealistic to expect short-term decarbonization from the airline industry, for example. It doesn't make much sense, either, to bail out sectors which have a short lifetime (those related to coal). But other sectors, such as tourism or car manufacturing, may have a bright future if they are able to develop sustainable business models (e.g. low-impact tourism and electric vehicles).

At this stage we could also profit from the low fuel prices to introduce environmental taxes, which will prevent a rebound effect. This may seem counterintuitive, but the low prices make it possible to introduce the taxes without harming consumers, and the revenue will be much better spent reducing public deficits (instead of sending it to fossil-producing countries).

The second stage is the critical one. This is when we can create the deep, long-lasting impact that may transform our economies in a positive way. To achieve this, we must ensure that we make the right investments in not only physical but also human capital. These investments must meet several requirements:

- They must be compatible with long-term decarbonization strategies or with sustainable-development criteria in general (including the fight against poverty).
- They must create jobs and economic activity within the region that is deploying the funds, in the long term but also in the short term (patience is short).
- They must be made in sectors with future potential, in which the region may be competitive sustainably.
- The projects they support must be shovel-ready.

Renewable energy projects seem to fit this bill. But should we put all our money into them, as some suggest? Probably not. Yes, they do help decarbonize the economy, and they replace expenses in fossil fuels with value-added activities. But they only

make sense in this context if the activities (not only building the power plants, but also manufacturing the equipment) take place domestically. Curiously, even when focusing on the energy transition, most of the requests are for building renewables, and fewer for energy efficiency (in which there is arguably less money to make).

It is important to remark that the need to create jobs domestically should not be translated into protectionist measures, but rather, as Rodrik proposes, into investments in local gains that at the same time increase global gains, as happens with green industrial policy. Of course, one could argue that investing overseas might also, in the long term, bring benefits to all economies…but that will take time and suffering along the way, which I consider not to be desirable in these circumstances.

Other investments may also help create jobs and address sustainable development; education and health care are clear examples. Investments in urban planning can also result in better, more liveable cities and can lower environmental impacts.

We must avoid quick and simplistic answers like 'let's use the money to accelerate the energy transition', and instead assess different investment opportunities carefully, considering not only their environmental benefits but also their macroeconomic returns and their speed of implementation. A recent study surveyed several experts about this, and concluded that investment in renewable energy does indeed look promising, but so does investment in clean technologies research and development. Healthcare and education do not provide that many environmental benefits, but offer a larger macroeconomic return. Money paid directly to households and businesses presents a larger macroeconomic return, with a somewhat negative environmental impact. The choice of where to invest, or how to combine all options into a reasonable portfolio, is therefore a multiple-criteria decision, which needs to be made based on public debate and political consensus.

Sustainability is not only about the environment. It demands a change towards a less consumerist economic model, more respectful of the environment, with a larger share of human and social capital and a more just distribution of resources. The European Green Deal may provide a good roadmap to some of these outcomes, but not necessarily all of them. We also need an intelligent industrial policy, with institutions that promote private–public collaboration and risk-sharing, with constant monitoring and rigorous assessment, and with transparency and public accountability. And we need to open this debate to the wider society, rather than limiting it to interest groups and closed meetings. These decisions will shape the future of our societies, and therefore need to be made collectively, and with enough information.