«How the Encyclical Laudato Si' could steer the EU's role in a just recovery after the Covid-19 crisis»

Five years ago - on May 24, 2015 - Pope Francis published his encyclical "Laudato Si", which has been met with great interest among religious and secular audiences alike. Every year in May, Catholic communities from across the globe lift up the messages of Laudato Si in a Vatican-sponsored campaign, 'Laudato Si Week'.

On the occasion of this fifth anniversary, a large congress in Rome and many events around the world were planned. Covid-19 obliged significant adaptation of these plans. ELSIA had planned its 'Third Laudato Si Reflection Day' to take place in Brussels, which has been replaced by this two hour webinar.

Earlier this month the Pope announced a year long celebration of the Encyclical, with an entire year of activities dedicated to implementing its messages. This webinar is a first contribution of ELSiA to this year of celebration and action.

There is no doubt possible: the Covid-19 pandemic already has and will have a huge and profound impact on economy and society - worldwide. The European Union is expected to experience an overall economic slump of about 9.5% in 2020. The number of unemployed and people on short-time work is rising enormously, and the resources to save companies from bankruptcy and to mitigate the social consequences of the crisis are reaching trillions.

At the same time, the crisis exposes some weak points of our economic and political system, of our society: Europe's dependence on countries like China or India for strategic goods such as medicines or medical protection material; problems with a widely privatised health care system and its capacities in intensive care due to former austerity measures; a system of care for the elderly that is primarily geared to economic efficiency; the lack of a coordinated approach at EU level in the event of a pandemic, and so on... It is becoming increasingly clear that these weaknesses are not accidental, but also the consequences of systemic choices made in the past.

With the slow and gradual dismantling of measures to contain pandemics, the question arises as to what a just recovery might look like. The European Commission and the European Parliament affirm that the restoration of the European economy should be "green and fair". The Commission will publish their plans on 27 May 2020. A "green and just recovery" should include achievement of the EU's climate and other environmental targets as well as social and economic renewal in the EU. Whether this will ultimately be the case does not yet seem certain, it rather poses a number of pertinent questions:

- How can we succeed in making the recovery of the economy and society green and just?
- What conditions would have to be met for this?
- What resistance is to be expected and how can it be overcome?
- How can we avoid a return to the unsustainable and unjust models of the past?
- What inspiration can the encyclical «Laudato Si'» provide for this?
- How can the "integral approach" promoted by Pope Francis in the encyclical, which links the ecological with the social, be such a source of inspiration for a green and just recovery?
- How can it help to put at the centre a radical shift of the dominant economic system towards a more just and sustainable paradigm where the economic, health, social, environmental crisis are not addressed in silos but as one crisis?
- What contribution can policy makers, the Church, and Christians make to enable this to happen?
- How can we, each one of us, contribute to this change?
- How can we inspire each other for the necessary steps we have to take ourselves and to change our mindset?

We are very happy that two eminent speakers will share with us their ideas: **Dr. Mariana Mazzucato**, Professor at the University College London and Founding Director of the Institute for Innovation and Public Purpose; and **Msgr. Bruno-Marie Duffé**, Secretary of the Dicastery for promoting integral human development. They will be followed by two even eminent Members of the European Parliament, **Ms. Patrizia Toia** and **Mr. Lukas Mandl**.

To help you to prepare this meeting we have gathered some background - articles. We hope that they make you acquainted with the main ideas of our speakers and inspire you to participate fully in the webinar and in the discussion via the chat-function of the webinar.

Mariana Mazzucato, Capitalism's Triple Crisis

Mariana Mazzucato, The Covid-19 crisis is a chance to do capitalism differently

Peter Cardinal Turkson, We must think of the aftermath of COVID-19 so we are not unprepared

Herman Van Rompuy, COVID-19: A turning point for the EU?

Frans Timmermans/Bertrand Piccard, Which world do we want after COVID-19?

EU Environment Ministers, European Green Deal must be central to a resilient recovery after Covid-19

EurActiv, Environmental NGOs launch appeal for green reconstruction

The Economist, Not quite all there. The 90% economy that lockdowns will leave behind

Finally: Please do not be put off by the 32 pages of this reader: these texts are intended as a source of inspiration, not as compulsory reading ! We are already looking forward to your participation in our webinar!

__Who we are__: The __European Laudato Si' Alliance (ELSi'A)__ is a group of organisations that are joining forces in Europe to promote climate and social justice, highly inspired by the Encyclical Letter Laudato Si' of Pope Francis. This alliance is bringing together the following organisations: __COMECE__ – Commission of the Bishops' Conferences of the EU; __JESC__ – Jesuit European Social Centre; __CIDSE__ – International family of Catholic social justice organisations; __GCCM__ – Global Catholic Climate Movement; __Justice and Peace Europe__; __CCEE__ – Council of Bishops' Conferences of Europe.

Capitalism’s Triple Crisis

March 30, 2020 Mariana Mazzucato

After the 2008 financial crisis, we learned the hard way what happens when governments flood the economy with unconditional liquidity, rather than laying the foundation for a sustainable and inclusive recovery. Now that an even more severe crisis is underway, we must not repeat the same mistake.

LONDON – Capitalism is facing at least three major crises. A pandemic-induced health crisis has rapidly ignited an economic crisis with yet unknown consequences for financial stability, and all of this is playing out against the backdrop of a climate crisis that cannot be addressed by “business as usual.” Until just two months ago, the news media were full of frightening images of overwhelmed firefighters, not overwhelmed health-care providers.

This triple crisis has revealed several problems with how we do capitalism, all of which must be solved at the same time that we address the immediate health emergency. Otherwise, we will simply be solving problems in one place while creating new ones elsewhere. That is what happened with the 2008 financial crisis. Policymakers flooded the world with liquidity without directing it toward good investment opportunities. As a result, the money ended up back in a financial sector that was (and remains) unfit for purpose.

The COVID-19 crisis is exposing still more flaws in our economic structures, not least the increasing precarity of work, owing to the rise of the gig economy and a decades-long deterioration of workers’ bargaining power. Telecommuting simply is not an option for most workers, and although governments are extending some assistance to workers with regular contracts, the self-employed may find themselves left high and dry.

Worse, governments are now extending loans to businesses at a time when private debt is already historically high. In the United States, total household debt just before the current crisis was $14.15 trillion, which is $1.5 trillion higher than it was in 2008 (in nominal terms). And lest we forget, it was high private debt that caused the global financial crisis.

Unfortunately, over the past decade, many countries have pursued austerity, as if public debt were the problem. The result has been to erode the very public-sector institutions that we need to overcome crises like the coronavirus pandemic. Since 2015, the United Kingdom has cut public-health budgets by £1 billion ($1.2 billion), increasing the burden on doctors in training (many of whom have left the National Health Service altogether), and reducing the long-term investments needed to ensure that patients are treated in safe, up-to-date, fully staffed facilities. And in the US

– which has never had a properly funded public-health system – the Trump administration has been persistently trying to cut funding and capacity for the Centers for Disease Control and Prevention, among other critical institutions.

On top of these self-inflicted wounds, an overly "financialized" business sector has been siphoning value out of the economy by rewarding shareholders through stock-buyback schemes, rather than shoring up long-run growth by investing in research and development, wages, and worker training. As a result, households have been depleted of financial cushions, making it harder to afford basic goods like housing and education.

The bad news is that the COVID-19 crisis is exacerbating all these problems. The good news is that we can use the current state of emergency to start building a more inclusive and sustainable economy. The point is not to delay or block government support, but to structure it properly. We must avoid the mistakes of the post-2008 era, when bailouts allowed corporations to reap even higher profits once the crisis was over, but failed to lay the foundation for a robust and inclusive recovery.

This time, rescue measures absolutely must come with conditions attached. Now that the state is back to playing a leading role, it must be cast as the hero rather than as a naive patsy. That means delivering immediate solutions, but designing them in such a way as to serve the public interest over the long term.

For example, conditionalities can be put in place for government support to businesses. Firms receiving bailouts should be asked to retain workers, and ensure that once the crisis is over they will invest in worker training and improved working conditions. Better still, as in Denmark, government should be supporting businesses to continue paying wages even when workers are not working – simultaneously helping households to retain their incomes, preventing the virus from spreading, and making it easier for businesses to resume production once the crisis is over.

Moreover, bailouts should be designed to steer larger companies to reward value creation instead of value extraction, preventing share buybacks and encouraging investment in sustainable growth and a reduced carbon footprint. Having declared last year that it will embrace a stakeholder value model, this is the Business Roundtable's chance to back its words with action. If corporate America is still dragging its feet now, we should call its bluff.

When it comes to households, governments should look beyond loans to the possibility of debt relief, especially given current high levels of private debt. At a minimum, creditor payments should be frozen until the immediate economic crisis is resolved, and direct cash injections used for those households that are in direst need.

And the US should offer government guarantees to pay 80-100% of distressed companies' wage bills, as the UK and many European Union and Asian countries have done.

It is also time to rethink public-private partnerships. Too often, these arrangements are less symbiotic than parasitic. The effort to develop a COVID-19 vaccine could become yet another one-way relationship in which corporations reap massive profits by selling back to the public a product that was born of taxpayer-funded research. Indeed, despite US taxpayers' significant public investment in vaccine development, the US Secretary of Health and Human Services, Alex Azar, recently conceded that newly developed COVID-19 treatments or vaccines might not be affordable to all Americans.

We desperately need entrepreneurial states that will invest more in innovation – from artificial intelligence to public health to renewables. But as this crisis reminds us, we also need states that know how to negotiate, so that the benefits of public investment return to the public.

A killer virus has exposed major weaknesses within Western capitalist economies. Now that governments are on a war footing, we have an opportunity to fix the system. If we don't, we will stand no chance against the third major crisis – an increasingly uninhabitable planet – and all the smaller crises that will come with it in the years and decades ahead.

Mariana Mazzucato is Professor of Economics of Innovation and Public Value and Director of the UCL Institute for Innovation and Public Purpose (IIPP). She is the author of The Value of Everything: Making and Taking in the Global Economy, which was shortlisted for the Financial Times-McKinsey Business Book of the Year Award.

The Covid-19 crisis is a chance to do capitalism differently

Government has the upper hand for the first time in a generation. It must seize the moment

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Mariana Mazzucato

'Coronavirus will require governments to respond with a scale and intensity reminiscent of a military conflict – this is a war against the spread of the virus.' Photograph: Heikki Saukkomaa/ Rex/Shutterstock

The world is in a critical state. The Covid-19 pandemic is rapidly spreading across countries, with a scale and severity not seen since the devastating Spanish flu in 1918. Unless coordinated global action is taken to contain it, the contagion will soon become an economic and financial one too.

The magnitude of the crisis requires governments to step in. And they are. States are injecting stimulus into the economy while desperately trying to slow the spread of the disease, to protect vulnerable populations, and to help create new therapies and vaccines. The scale and intensity of these interventions reminiscent of a military conflict – this is a war against the spread of the virus and economic collapse.

And yet there is a problem. The intervention needed requires a very different framing from the one that governments have chosen. Since the 1980s, governments have been told to take a back seat and let business steer and create wealth, intervening only for the purpose of fixing problems when they arise. The result is that governments are not always properly prepared and equipped to deal with crises such as Covid-19 or the climate emergency. By assuming that governments have to wait until the occurrence of a huge systemic shock before they resolve to take action, insufficient preparations are made along the way.

In the process, critical institutions providing public services and public goods more widely – such as the NHS in the UK, where there have been cuts to public health totalling £1bn since 2015 – are left weakened.

The prominent role of business in public life has also led to a loss of confidence in what the government can achieve alone – leading in turn to the many problematic public-private partnerships, which prioritise the interests of business over the public good. For example, it has been well documented that public-private partnerships in research and development often favour "blockbusters" at the expense of less commercially appealing medicines that are hugely important to public health, including antibiotics and vaccines for a number of diseases with outbreak potential.

On top of this, there is a lack of a safety net and protection for working people in societies with rising inequality, especially for those working in the gig economy with no social protection.

But we now have an opportunity to use this crisis as a way to understand how to do capitalism differently. This requires a rethink of what governments are for: rather than simply fixing market failures when they arise, they should move towards actively shaping and creating markets that deliver sustainable and inclusive growth. They should also ensure that partnerships with business involving government funds are driven by public interest, not profit.

First of all, governments must invest in, and in some cases create, institutions that help to prevent crises, and make us more capable to handle them when they arise. The UK government's emergency budget of £12bn for the NHS is a welcome move. But equally important is a focus on long-term investment to strengthen health systems, reversing the trends of recent years.

Second, governments need to better coordinate research and development activities, steering them towards public health goals. Discovery of vaccines will necessitate international coordination on a herculean scale, exemplified by the extraordinary work of the Coalition for Epidemic Preparedness Innovations (CEPI).

But national governments also have a huge responsibility in shaping the markets by steering innovation to solve public goals, in the same way that has been done by ambitious public organisations such as the Defense Advanced Research Projects Agency (Darpa) in the US, which funded what became the internet when it was solving the problem of getting satellites to communicate. A similar initiative in healthcare would make sure that public funding is geared to solving major health problems.

Third, governments need to structure public-private partnerships to make sure both citizens and the economy benefit. Health is a sector that globally receives billions from the public purse: in the US, the National Institute of Health (NIH) invests $40bn a year. Since the 2002 Sars outbreak, the NIH has spent $700m on coronavirus research and development. The large public funding going into health innovation means governments should govern the process to ensure prices are fair, patents are not abused, medicine supply is safeguarded and profits are reinvested back into innovation, rather than siphoned out to shareholders.

And that if emergency supplies are needed – such as medicines, hospital beds, masks or ventilators – the same companies benefiting from public subsidies in good times must not speculate and overcharge in bad times. Universal and affordable access is essential not just at national level, but at international level. This is especially crucial for pandemics: there is no place for nationalistic thinking, like Donald Trump's attempt to acquire an exclusive US licence for the coronavirus vaccine.

Fourth, it is time to finally learn the hard lessons of the 2008 global financial crisis. As companies, from airlines to retail, come asking for bailouts and other types of assistance, it is important to resist simply handing out money. Conditions can be attached to make sure that bailouts are structured in ways that transform the sectors they're saving so that they become part of a new economy – one that is focused on the green new deal strategy of lowering carbon emissions while also investing in workers, and making sure they can adapt to new technologies. It must be done now, while government has the upper hand.

Covid-19 is a major event that exposes the lack of preparedness and resilience of the increasingly globalised and interconnected economy, and it certainly won't be the last. But we can use this moment to bring a stakeholder approach to the centre of capitalism. Let's not let this crisis go to waste.

https://www.theguardian.com/commentisfree/2020/mar/18/the-covid-19-crisis-is-a-chance-to-do-capitalism-differently

We must think of the aftermath of COVID-19 so we are not unprepared

The Prefect of the Dicastery for Promoting Integral Human Development underlines the commitment in favour of "local Churches to save lives and help the poorest". Five working groups have been created to face the crisis and look toward the future.

Videopresentation: https://youtu.be/IT7zZsP5UpI

By Massimiliano Menichetti

Around the world, the Church is at the forefront in dealing with the consequences of the coronavirus. Short and long-term projections regarding health care, as well as economic and social necessities, are needed. While vaccines and treatments to eradicate COVID-19 continue to be tested, the forecasts of the International Monetary Fund for 2020 speak of a 3% drop in the global gross domestic product. The decline would be worse than the "Great Depression" of the 1930s. In this context, Cardinal Peter Kodwo Appiah Turkson, Prefect of the Dicastery for Promoting Integral Human Development, stresses that "one crisis risks being followed by others, in a cycle in which we will be forced to learn slowly and painfully take care of our common home, as Pope Francis so prophetically teaches in the Encyclical Laudato si'".

Your Eminence, the Pope received you in audience several times to speak about the Coronavirus crisis. What is the concern he expressed to you?

The Pope expressed his concern for the present time, for the world crisis generated by COVID-19 and for the dramatic scenarios on the horizon. He told us not to waste time, to get down to work immediately, because we are the Dicastery that is his point of reference. We must act now. And we must immediately think about what will happen next.

What is the mandate that has been given to your Dicastery and what is your mission?

The Holy Father has entrusted us with two main tasks. The first concerns today: the need to offer promptly, attentively, and timely the concrete sign of the Holy Father's and the Church's support. We must offer our contribution in this crisis. It is a matter of putting actions in place to support the local Churches, to save lives, to help the poorest. The second concerns the aftermath, the future: it is about change. The Pope is convinced that we are living through an epochal change, and he is reflecting on what will follow the crisis, on the economic and social consequences of the pandemic, on what we will have to face, and above all on how the Church can offer itself as a safe point of reference to the world lost in the face of an unexpected event. Making a contributing regarding the latter is our second task. The Pope has asked us for concreteness and creativity, scientific approach and imagination, global thinking and the ability to understand local needs.

How are you setting up this activity?

We have set up five working groups that are already at work. We have already had two working meetings with the Holy Father. We have created a command centre, to coordinate the initiatives meant to be enacted during the crisis and those that concern preparing for tomorrow. Ours is a service in terms of action and thought. We need concrete action now, and we are doing it. We need to look beyond today, to chart the course for the difficult journey that awaits us. If we do not think about tomorrow, we will find ourselves unprepared once again. Taking action today and thinking about tomorrow are not alternatives. We are not facing an "either/or" but a "both/and". Our team has already begun to collaborate with the Secretariat of State, the Dicastery for Communications, Caritas Internationalis, the Pontifical Academies of Science and Life, the Office of Papal Charities, the Congregation for the Evangelization of Peoples and the Vatican Pharmacy. We have created a somewhat new mode of collaboration between our team and the various Dicasteries and offices of the Holy See: a task force mode. An agile collaboration that bears witness to the unity and the ability of the Church to react.

Who is on the Commission that was created within the Dicastery and what are its areas of focus? Does it include other people or entities outside the Holy See?

The Commission is composed of 5 working groups.

The first group is already actively at work on the crisis. It works with Caritas Internationalis. It has set up mechanisms to listen to the local Churches to identify real needs and assist in the development of effective and adequate responses. It has asked the Nuncios (Papal Representatives) and Episcopal Conferences to report health and humanitarian issues that require immediate action. A broad outlook is needed. Nobody must be forgotten: prisoners, vulnerable groups. We need to share good practices.

The second group has the task of night watch, like the sentry, to perceive the dawn. To do this it is necessary to connect the best minds in the areas of ecology, economy, health, and public security. We need the concreteness of science and we need prophecy, and creativity. We need to go above and beyond. This group will work in close collaboration with the Pontifical Academy of Life, the Pontifical Academy of Sciences and the Pontifical Academy of Social Sciences.

The third group has the task of communicating our work, of building a new awareness, and calling for a renewed commitment through the means of communication. A section of the Dicastery for Promoting Integral Human Development's website will be dedicated to the team's communications.

The fourth group will deal with all possible initiatives regarding the relationship with States or multilateral relations. It will be coordinated by the Secretariat of State. In this area, there is also a need for concrete action and prophecy.

The fifth group will be responsible for finding the necessary funds, in a transparent manner, by promoting a virtuous movement of wealth.

We are taking the first steps. We know that there is much to do. We will commit ourselves with all the energy we have. We are also involving institutions that have traditionally collaborated - and still do - with our Dicastery, such as Georgetown University, Potsdam University, the Catholic University of the Sacred Heart in Milan, World Resources Institute, and many others.

The whole Church is very dedicated during this crisis: there are Caritas branches [Catholic Charities], religious congregations, communities, organizations and Catholic movements... The whole network of charity and solidarity of the ecclesial world has been mobilized.

How will you be interacting with these realities?

The Church's network in individual countries is essential. Caritas does extraordinary work. Everything we do will be done in communion between ourselves here in Rome and the local Churches. The team is at the service of the Pope and the Churches. Our mission is not to replace the action of the local Churches, but to help them and be helped by them. We are at the service of one another. We would not understand the time we live in if we were to do otherwise. But it is in this way above all that the Church manifests her universality.

Why is it important to begin thinking about the future, today?

It is important to begin to reason immediately about what lies around the corner so as not to be unprepared. The health crisis has already triggered an economic one. The risk is that a social crisis will be provoked if this economic crisis is not dealt with immediately. One crisis risks being followed by others, in a cycle in which we will be forced to learn slowly and painfully to take care of our common home, as Pope Francis so prophetically teaches in the Encyclical Laudato si'.

There is a need for courage, for prophecy. The Pope made this clear in his Urbi et orbi message. This is not the time for indifference, selfishness or divisions, because the whole world is suffering and must find itself united in confronting the pandemic. Instead, it is time to loosen the international sanctions that make it difficult for countries to provide adequate support to their citizens. It is time to enable all states to meet the greatest needs of the moment. It is time to reduce, if not even forgive, the debt burden on the budgets of the poorest nations. It is time to resort to innovative solutions. It is time to find the courage to join the call for a global and immediate ceasefire in all corners of the world. This is not the time to continue manufacturing and trafficking weapons, spending huge amounts of capital that should, instead, be used to heal people and save lives.

Today, how is each individual called to live this ordeal?

Today, all of us are rediscovering our fragility. First of all, we are rediscovering that inhabiting the Earth as a common home requires much more. It requires solidarity in accessing the goods of creation as a "common good", and solidarity in applying the fruits of research and technology to make our "Home" healthier and more liveable for all. In this, we rediscover God, who has entrusted us with such a vocation of being in solidarity with others. We are rediscovering how much the destiny of each of us is linked to that of others. We are rediscovering the value of the things that matter and the worthlessness of so many things that we once considered important. As the Pope said on 27 March: "The storm exposes our vulnerability and uncovers those false and superfluous certainties around which we have constructed our daily schedules, our projects, our habits and priorities."

15 April 2020, 16:15

https://www.vaticannews.va/en/vatican-city/news/2020-04/turkson-think-covid19-aftermath-to-not-be-unprepared.html

COVID-19: A turning point for the EU?

Herman Van Rompuy

President of the European Policy Centre and President Emeritus of the European Council

What long-term lessons can we draw from the corona crisis? Which ones must we draw?

Many say that our way of life has changed so much that there will be a time before and a time after this crisis. For me, there is a distinction between values and behaviours. There is, undoubtedly, a kind of togetherness between people, grown out of the feeling that we are all in the same boat. A lot of creative energy has been released. Digitisation has prevented us from becoming alienated from each other. Social media have shown that they don't just polarise. Their positive uses have made the new media truly social. We have also learned that we can meet remotely, collaborate and be productive.

There are, of course, underlying inequalities in the way we can protect and isolate ourselves. But nobody is truly safe, and there are also a few 'big names' among the victims.

Conversely, in addition to connectedness, distrust has also grown. These days people look at each other too much as potential carriers of infection. Foreigners are often considered more dangerous than fellow countrymen. At the beginning of the crisis, Asians, and in particular the Chinese, were viewed with great suspicion in the West. Now, it could be the other way around. Let's hope it is transient. Let us also hope that the rediscovery of connection is not! After all, once the crisis is over, daily life will absorb us again and

the 'rat race' will resume. Hopefully, there will also be something left of the slower and more conscious life, of living together. 'My world may have flipped, but my priorities are falling back into order': wise words from an unknown older man.

There is undoubtedly a lot of solidarity among populations, but too much is focused only on people of the same nation or tribe. Cross-border solidarity that requires a greater effort, that points to the transcendence of one's own ego, is much more difficult. The painful discussion in the European Union (EU) about the willingness to help, and under what conditions, is unfortunately an illustration of this.

This crisis is about life and death. Had we done nothing, the cost of human life would have been enormous, many times higher than what a normal winter flu brings.

A virus emerges somewhere in the world and every country is on its knees. We've become so interdependent and so vulnerable.

Among populist forces we have witnessed different reactions to this pandemic. A number of parties sided with health, because a populist wants to be popular. Others took advantage of a new external enemy – the virus – to expand their political power. Still others first gave the impression of choosing money over human lives – a real conflict of values – but they were unable to hold out for long. But for those populists, it was about more than economics. The primacy of politics had to give way to experts and scientists, until recently presented by them as unworldly and irrelevant. How hollow the slogan to 'take back control' sounds! The crisis also spiralled out of control in countries ruled by populists. The heroes are not the new populist elite, but doctors, care workers and other ordinary men and women who, at great personal risk, save lives and keep society running.

Once again, the facts are the ideologists' greatest enemy.

The opponents of a strong and big government are waning. Only governments can turn the tide. The markets are wavering. Private investors are paralysed with uncertainty and fear. Protecting everyone is ultimately a task for the government.

The most basic function of the state, to protect the life and limb of its citizens, is back to the fore.

Monetary and budgetary policy are now working together in one direction. The 'frugals' are opening all the taps in their own country, but tend to refuse to do so for other countries – even within a political entity like the EU. Who dares to ask for austerity today? Who would dare to repeat the past savings in health care? If savings are needed later, everyone now knows where not to cut and where to invest. It is a question of priorities and therefore of values. This does not mean that efficiency gains should not be made

in the medical sector as well. And if there is a shortage of money, more must be contributed if necessary. More than ever, it will be about the just distribution of the burden. The question of taxing companies that pay little or no
tax will be more pressing than ever. A tax on large digital companies is a must. Obamacare will only be a start in the USA, Trump or no Trump. We have now discovered that among us there are many Dr. Schweitzers, Father Damiens or Florence Nightingales.

The enemies of the EU have a point when they ask where the Union was at the beginning of the crisis. The answer is paradoxical and simple: yes, there was too little EU; but that is because it is not a superstate! Even though the Union has no competences in health or social matters, everyone expected that there would be much more coordination on the necessary restrictive measures. And, once again, one already sees purely national strategies for the exit from quarantine.

Those working on the new Conference on the Future of Europe should realise that many citizens would have preferred 'more Europe' to today's patchwork.

Economically, the EU and the eurozone will have to be much more relevant, if only because 19 out of 27 countries have a single currency. All of them will be dragged into the post-corona depression, which will strike harder in some countries than in others. Some countries will have to give up illusions. The ‘strong countries’ were not so strong before February 2020. Economic growth in Germany was the lowest in the eurozone, with the exception of Italy.

The overall impact of national fiscal stimulus measures is much greater when taken in a coordinated manner at European level. Certainly, in small economies that are more open than larger countries, a budgetary stimulus is ‘leaking’ to a good extent through, among other things, increased imports.

The European Central Bank (ECB) had to, and is doing all it can, again. This new Pandemic Emergency Purchase Programme (PEPP) will have an overall envelope of €750 billion. The central bank will do whatever is necessary, within its mandate. It is fully prepared to increase the size of its asset purchase programmes and adjust their composition, by as much as necessary and for as long as needed. It cannot be said that the ECB is acting ‘too little and too late’. Some said before the corona crisis that the central bank had nothing left in its toolbox. They were wrong. Those who feared more inflation in recent years after the expansionary monetary policy of recent years have had to conclude that this did not result in more inflation – on the contrary.

The crisis response will not succeed without European coordination and solidarity. As in the years 2010-2013,
we will achieve solidarity not for ethical reasons but because the enlightened national interests of a number of countries ultimately coincide with the European interest. It takes a while before this insight matures. But we cannot wait two and a half years to make that decision, as we did then. Fortunately, the non-empathic statements made by EU institutions and some member states were so poorly received that the authors had to make adjustments. These errors are at the root of changes in a positive direction! For those who had forgotten, this crisis is a reminder of the existence of a European public space.

The compromise reached in the Eurogroup is proof that we have drawn lessons from the past. The three new EU safety nets (ECB, EIB, EMS) add up to around half a trillion euros.

As usual, we will go from compromise to compromise.
The question is whether and when the answer will be sufficient. Taboos have already perished at the national level, such as the obsession with absolute budget equilibra. At the European level, the Stability and Growth Pact has been temporarily pushed aside and the ECB will run up even more massive public debt. These European taboos
are being shattered. White Thursday’s recent compromise includes another breakthrough. The SURE programme proposed by the Commission to help f.i. member states finance temporarily reduced working time is a step in the direction of a unemployment reinsurance system that is part of any genuine economic and monetary union. It was presented in a broader sense in the four presidents’ report in 2012. ESM loans for domestic financing of direct and indirect healthcare, cure and prevention related costs due to the COVID-19 crisis, are also a novelty. Especially if macroeconomic conditionality does not apply. The amount can be 2% of the respective member’s GDP as of end-2019.

However, public debt in Italy and other countries should not spiral out of control, because then, not only one country would have a problem, but the eurozone as a whole. Lending more to that country via the European Stability Mechanism (ESM) or other funds is therefore not enough. The idea of forms of temporary solidarity derives from this observation. The Recovery Fund i.a. can play an important role.

The compromise of 9 April is a very important step but will not be the last one. I've heard some people say: 'Italy has no and will not have liquidity problems, so there is no need to consider even more far-reaching measures'. But are we going to wait as we did in the Greek crisis? Will we wait again for the verdict of the financial markets? The past has taught

us that even bolder compromises were only possible 'with the back against the wall, the abyss in front of our eyes and the knife at our throats'. This time we need to anticipate and prepare for the next phase. Apparently, we're working on that. 'If we really ever need anything bolder, I'm sure we will succeed.' An old friend with an impressive record in the Union confided it to me. Time also should be allowed to do its work to bring minds and interests together.

However, the debate within the eurozone is much more emotional now than it was ten years ago. The ghosts from the beginning of the polycrisis have resurfaced. I sometimes have the impression that some of them are still in the trenches of a war we thought had passed.
The dividing lines also run right through the European political parties, even among the populists. The patience of the 'South' is gone. We cannot live for a long period in that climate, as we did during the eurozone crisis. A great responsibility rests once again on France and Germany. They played their role in the final stage leading to the recent compromise. Some Visegrád countries cannot hold up progress if a compromise is found, as three out of the four are outside the eurozone.

One of the instruments to address the impact of the crisis should be the Multiannual Financial Framework (MFF). The European budget, the MFF, is of course ridiculously small: between one fiftieth and one fortieth of the total public spending of all governments in the Union. There

is no bazooka hidden within it. But, yet again, there was
no agreement in February 2020 on the next MFF. The Commission is right when it says it will come up with a revised budget proposal in the light of the double crisis
we are currently experiencing: the pandemic and the economic depression. The hypotheses on which previous proposals were based are no longer valid. This time, when the European Council meets on this issue, we must be sure to succeed. If not, the current budget will have to run for an extra year.

The firepower of the European budget can be enhanced
if the EU has the possibility to borrow. The Juncker
Plan was a creative idea. It worked on the principle of underwriting risk, so the funding comes from the private sector and/or national authorities. The funds of the EIB, backed by a provision in the EU budget, are there to take the first tranche of losses. The proposed Recovery Fund will mobilise future-oriented investment and help spread the costs of the extraordinary crisis over

time through appropriate financing. Some member states were of the view that it should be based on common debt issuance, while others advocated alternative solutions, in particular in the context of the multiannual financial framework. These are investments for which even Adam Smith thought it was responsible to borrow!

Without more economic growth, private and public debt will become unmanageable. We must, of course, hope that growth in 2021 will make up for the bulk of the depression of 2020. It is not impossible. Surely, we are not going to do as we did after the financial crisis, where the European Council at the end of 2008 first decided on a budgetary injection of 1.5% of GDP and one year later on fiscal consolidation. It is not forbidden to learn from the past. We have already seen a rapid, massive, co-ordinated impulse from the monetary and fiscal authorities and from regulators: nearly 3% GDP of fiscal measures on top of the impact of automatic stabilisers. A one-time breakdown can be offset by a one-time injection. In the long run, economic growth cannot come from demand alone. Without stronger productivity, there can be no stronger GDP growth. Italy, like the UK, has been struggling with this for decades.

If the euro area does not achieve better macroeconomic balance, it is under threat. Countries cannot have current account surpluses that go to 10% of GDP, albeit vis-à-vis the rest of the world. If there were still national currencies, these surpluses would disappear due to a revaluation of those currencies. But because we only have one currency, they will continue to exist. In a way, the surpluses of one currency are also the deficits of another. During the eurozone crisis, we had set up a mechanism to avoid such a situation. It turned out to be a dead letter. That too is a lesson.

At the same time, but unlike in 2008, we are witnessing a 'my country comes first' approach around the globe. The climate was already soured by the USA's useless trade war with China, and even partly with the EU. It was a capital blunder. Brexit also took us further away from international cooperation. How can a country be against protectionism when it is prepared to impose tariffs on the goods and services of its largest trading partner?

The pandemic is a global phenomenon, which should lead to a higher level of international cooperation. The G20 finance ministers did not agree on a joint text a few weeks ago because the current administration in the USA insisted that China should be blamed for the current crisis. The G20 has definitively become an empty box. It had already been downgraded to a discussion forum beforehand, far removed from the original idea of a global policy centre. After 2008, the G20 never found its élan again. Only the Paris Climate Conference (December 2015) was a bright spot in multilateralism. However, the economic depression will not make countries more climate-friendly. I fear that the old trade-off between ecology and economy will be brought back to life. Perhaps it's not a bad thing that the COP-26 has been postponed for a while so that the long- term climate objectives can once again receive sufficient attention. And yet we must continue with the Green Deal. The relaunch of the economy through investment in energy and climate fits perfectly into that major project. It would be a break with the traditional recovery programmes of the past, which were not inspired by sustainability.

Generally speaking, in the future, the world will have to deal even more with exogenous developments, such as climate change and pandemics. The devastating fires in Australia and the COVID-19 pandemic teach us that the exception is almost becoming the rule. Crises are not just endogenous, specific to our individual economic, political or societal systems. Disruptions are not just technological, like the digital revolution. Disruption exists on all levels. It will make our populations even more anxious and insecure. Vulnerable to reason after the traumas of the last few months or susceptible to emotions? Long term or short term? Stability or adventure? Solidarity or tribalism? How to prepare for new crises if there is no more solidarity in society and political courage at national and European among leaders? The EU institutions have their role as engines but they cannot do anything without the

member states. France and Germany continue to carry a major responsibility.

But do not think that authoritarian regimes will come
out of this crisis strengthened. In China and Russia, too, the crisis has provoked a major internal debate that is
not public, of course, but nevertheless real. Russia finds itself in a chaotic medical situation, in stark contrast to its so-called geopolitical ambitions. In addition, how does the Russian economy deal with the extremely low current oil prices on which the country is so dependent? Would an export-oriented Chinese economy benefit from a world economy in depression? China will also discover that Western countries will rethink their production chains and will no longer want to be dependent on a single supplier in strategic sectors. They will want to keep more strategic activities in Europe in their own hands. The world will not de-globalise economically, but there will now be a greater tendency to emphasise strategic autonomy. Private companies in the West that usually look for the cheapest solution and do not care much about geopolitics have learned their lesson.

If one wants to make a comparison between authoritarian regimes and democracies in terms of corona crisis management, one has to conclude that there are also differences in the performance of the latter. What is it due to? Germany is doing better than many other countries, including northern countries. That may also be said. "Gouverner, c'est prévoir". "To govern is to plan".

The EU as a whole must be much more sovereign in the economic, technological, energy, medical and agricultural fields. We must also protect our external borders better, also in the name of sovereignty. Another theme for the Conference on the Future of Europe. If not, we cannot 'protect' our citizens sufficiently, a primary task of any political system. Many are even more convinced of this in these times of quarantine.

In the midst of the tragedy of tens of thousands of deaths, we must continue to hope that we will learn lessons to avoid repetition. Hope, however, is a verb. How to turn fear into hope? Politics is action.

Which world do we want after COVID-19?

DISCLAIMER: All opinions in this column reflect the views of the author(s), not of EURACTIV.COM Ltd.

The coronavirus crisis has caused a lot of suffering and uncertainty, but its aftermath offers us an opportunity to break with old habits and build a circular, sustainable and highly competitive economy, write Frans Timmermans and Bertrand Piccard.

Frans Timmermans is the executive vice-president of the European Commission. Bertrand Piccard is the founder and chairman of the Solar Impulse Foundation. EURACTIV is exclusively publishing the English version of this Op-Ed.

The coronavirus crisis is not over yet and a lot of people are suffering: those who have contracted it and their families, the healthcare workers on the frontline of the battle, workers losing their jobs, the self-employed and small businesses facing an uncertain future, and stock markets plunging.

For many, this is a terrible time.

Right now, our focus should be on fighting the virus while ensuring that we keep our economy and financial system afloat. However, as we emerge from the immediate crisis, we will need to reboot our economy as quickly as possible, getting production lines up and running, with people back to work and earning incomes again.

That leaves us with a choice: desperately fight to get back to what we had previously or try to reach a much better situation.

What did we have before COVID-19? A sluggish, linear and carbon-spewing economy struggling to increase employment rates and quality of life, while depleting natural resources, producing dangerous waste and toxic pollutants, putting the population and industry at risk, before even mentioning climate change.

Is this really what we want to recover? There exists another way: aiming for qualitative growth, with a circular, sustainable and highly competitive economy. How do we get there? By replacing old and polluting infrastructure with a modern, clean and efficient one, across all sectors – water, energy, construction, mobility, agriculture and industrial processes to name but a few.

This would create many more jobs and grow our GDP much more than the old way.

This is why it is a false contradiction to say that the Green Deal is a luxury we cannot afford. The floods, droughts, wildfires, sea rise, and desertification are going to hit us hard. Moreover, retreating nature and melting permafrost will confront us with more unknown viruses.

The sudden halt of mass production and transport, while hurting our economy, does give us a small taste of how it could be if we would electrify our mobility and cut down on fossil fuels in our industry. For instead of imagining clean air in the heart of our cities, one can now actually smell it.

The Green Deal is a growth strategy which happens to also protect the environment. Renewable energies and clean technologies are a massive economic and industrial opportunity that has a brighter future than going back to a fossil-fuel based economy riven with uncertainty and unpredictability.

Why is that? Because clean technologies pay for themselves, thanks to the energy and resource savings they offer. Investing in this new infrastructure is not a cost, it is an investment, a way to increase profit for industry and reduce spending for individuals. We can build a robust renewable energy network based on solar, geothermal, biomass, ocean energy and wind power, though the possibilities go much further.

We could electrify harbours with shore-to-ship power to reduce maritime transport's emissions, build electric vehicle charging points and hydrogen stations, set more efficiency standards for all kinds of appliances, reduce building energy consumption through efficient heating, ventilation and air-conditioning, innovative insulation technologies, or intelligent facade shading management solutions.

We could help our farmers to modernise so they can use less pesticides and take care of our environment while producing healthier products.

These technologies already exist. They represent only a few examples of the solutions identified and selected by the Solar Impulse Foundation, and its #1000Solutions challenge is here to prove it.

What these technologies need is easier access to investment, public procurement aligned with the Paris Agreement, and favourable environmental regulations that create a need for these solutions on the market.

Delaying stronger car emission standards won't help the car industry when cities are banning combustible engines and customers are moving towards electric cars. Nor will keeping coal-fired power stations running help the energy industry while renewable energy prices continue to fall.

Doing more of the same as a rescue package cannot be the answer.

Instead of using the stimulus packages to support 'business as usual' – locking in obsolete economic models, and investing in assets that will soon be stranded – we should invest in the new economy to come out of the crisis in better shape than we went into it, fit for the future: sustainable, inclusive, competitive and prepared.

It will help us to create the biggest industrial market of the century, as it has become today more profitable to protect the environment than to destroy it.

This could be our best shot at doing so.

https://www.euractiv.com/section/climate-environment/opinion/which-world-do-we-want-after-covid-19/?utm_source=EURACTIV&utm_campaign=6139171874-The_Capitals_COPY_27&utm_medium=email&utm_term=0_c59e2fd7a9-6139171874-114999215

European Green Deal must be central to a resilient recovery after Covid-19

13 European climate and environment ministers

The world is facing an unprecedented crisis. In just a few weeks, the Covid-19 pandemic has swept across the world and caused tremendous human tragedy and a historical economic setback of which we still do not know the full impact.

Our societies have shut down, borders are closed, unemployment is on the rise and companies are struggling. The focus is presently on fighting the pandemic and its immediate consequences.

We should, however, begin to prepare ourselves to rebuild our economy and to introduce the necessary recovery plans to bring renewed, sustainable progress and prosperity back to Europe and its citizens.

While doing so, we must not lose sight of the persisting climate and ecological crisis. Building momentum to fight this battle has to stay high on the political agenda.

The lesson from the Covid-19 crisis is that early action is essential. Therefore, we need to maintain ambition in order to mitigate the risks and costs of inaction from climate change and biodiversity losses.

We cannot afford setbacks that can have detrimental effects on our climate, biodiversity and environment as well as on human health and our economies.

These crises have reminded us that answers need to be found in a concerted manner through a common European response.

The EU's capacity to act depends largely on our ability to work together in solidarity to build the bridge between fighting Covid-19, biodiversity loss and climate change.

We therefore strongly welcome that the Heads of States and Governments on 26 March invited the Commission to start working on a comprehensive EU recovery plan integrating the green transition and digital transformation.

We call on the Commission to use the European Green Deal as a framework for this exercise and thereby to keep momentum by implementing its initiatives.

The Green Deal constitutes a new growth strategy for the EU, which is able to deliver on the twin benefits of stimulating economies and creating jobs while accelerating the green transition in a cost efficient way.

For example, the objective of climate neutrality by 2050 as well as a strong policy framework ensures a stable and forward-looking investment environment for Europe's businesses, which is an essential precondition for green growth and job creation.

In addition, we encourage the Commission to look into elements of the Green Deal, including the European Green Deal Investment Plan, which can be pushed forward to boost green recovery and a just transition.

We need to scale up investments, notably in the fields of sustainable mobility, renewable energy, building renovations, research and innovation, the recovery of biodiversity and the circular economy.

The Green Deal provides us with a roadmap to make the right choices in responding to the economic crisis while transforming Europe into a sustainable and climate neutral economy.

We should withstand the temptations of short-term solutions in response to the present crisis that risk locking the EU in a fossil fuel economy for decades to come.

Instead, we must remain resolved to increase the EU's 2030 target before the end of this year adhering to the timetable of the Paris agreement despite the postponement of Cop26, and inspire other global players to raise their ambition as well.

In that light we are pleased that the Commission is on track to present by September 2020 an impact assessed plan to raise the EU's 2030 ambitions and cut greenhouse gas emissions by 50-55% compared to 1990 levels.

Furthermore, we need to maintain and strengthen EU's effective regulatory tools such as the Emissions Trading Scheme, environment standards and sectoral policies, and make them more effective at reducing emissions in the most cost effective way while providing a path for European businesses into the future green and circular economy.

We need to send a strong political signal to the world and our citizens that the EU will lead by example even in difficult times like the present and blaze the trail to climate neutrality and the fulfilment of the Paris Agreement.

In the same vein, urgent action to protect and conserve biodiversity must be a key part of our response to the global health and environmental crisis and a key aspect to ensure the long-term survival and well-being of our societies.

Leonore Gewessler Federal Minister for Climate Action, Environment, Energy, Mobility, Innovation and Technology of Austria

Dan Jørgensen Minister for Climate, Energy and Utilities of Denmark

Krista Mikkonen Minister of the Environment and Climate Change of Finland

Sergio Costa Minister of Environment, Land and Sea of Italy

Juris Pūce Minister for Environmental Protection and Regional Development of the Republic of Latvia

Carole Dieschbourg Minister for the Environment, Climate and Sustainable Development of Luxembourg

Eric Wiebes Minister of Economic Affairs and Climate Policy of the Netherlands

João Pedro Soeiro de Matos Fernandes Minister for Environment and Climate Action of Portugal

Teresa Ribera Rodríguez Fourth Vice-President of the Government and Minister for the Ecological Transition and Demographic Challenge of Spain

Isabella Lövin Minister for Environment and Climate, and Deputy Prime Minister of Sweden
Élisabeth Borne Minister for the Ecological and Inclusive Transition of France
Svenja Schulze, Federal Minister for the Environment, Nature Conservation and Nuclear Safety of Germany
Kostas Hatzidakis, Minister of Environment and Energy, Greece

Updated on 11/04/20 to add Germany and Greece as signatories and on 10/04/20 to add France (contact ad@climatehomenews.com)

https://www.climatechangenews.com/2020/04/09/european-green-deal-must-central-resilient-recovery-covid-19/

Environmental NGOs launch appeal for green reconstruction

An association of ten major European environmental organisations today (14 May) launched an appeal to the European Union to come up with a green and fair reconstruction plan. Later today, the EU Parliament will vote on its position on this issue.

The appeal comes before an EU Parliament resolution today, which specifies what Parliament's demands are on the Commission's reconstruction plan. The plan will be presented next Wednesday together with a new EU budget.

"Our response to this crisis will determine whether or not we succeed in winning the battle against climate change, the loss of nature and widespread pollution (...)," write the signatories, including Bird Life Europe, WWF, Climate Action Network, Greenpeace and Friends of the Earth, representing 100 other NGOs. The EU should therefore launch "the biggest green investment plan the world has ever seen".

The environmental organizations had already expressed their demands in two previous open letters to the EU Commission. They demand that all economic stimulus packages be strictly aligned with the Green Deal and the Paris climate goals. These include, among other things, that hundreds of billions of euros be invested in the renovation of houses, that renewable energies and sustainable transport be promoted and that natural habitats be restored. Fossil companies and industries such as gas, oil and coal, chemicals, cars and airlines are not likely to receive any EU funding. The upcoming EU budget for 2021-2027 should earmark 50 percent of its funds for environmental protection - the official figure in the current budget is 20 percent. In addition, the European Investment Bank (EIB) should gear its credit lines towards the Green Deal and stop promoting fossil-fuel investments - a goal the bank had already publicly declared in November.

The environmental protection associations also refer to the planned EU taxonomy, a unified standard for green financial products that is to be introduced for large companies starting next year. State aid of any kind should be based on this framework and linked to strict conditions, which the EU should monitor. Similar demands with reference to the EU taxonomy, which has not yet been decided, had already been expressed by the Netherlands at the end of April.

Last week, the EU Commission had relaxed its rules on state aid, but environmental conditions have not yet been attached. Only Austria and France are planning to link the rescue of large companies and airlines to green conditions. Germany has so far distanced itself from this.

The Green 10's appeal is one of many similar statements made in recent weeks. For example, the ministers of 19 EU states addressed the EU with a similar request and demanded, albeit rather vaguely, a "green" reconstruction plan.

In today's vote, the EU Parliament is formulating its expectations of the new EU budget. In a first debate yesterday, MEPs called for an economic stimulus package worth €2 trillion. Commission President Ursula von der Leyen had assured the Parliament that they were prepared to take on more debt because it was "the least" that would be needed for the future of their own children. She said she wanted to "tackle climate change and reduce the burden on the climate and not add to it".

https://www.euractiv.de/section/energie-und-umwelt/news/umwelt-ngos-lancieren-appell-fuer-gruenen-wiederaufbau/

TIME TO INVEST IN A HEALTHY FUTURE: TIME FOR A GREEN & JUST RECOVERY

We call upon EU and national leaders to tackle the unprecedented crisis caused by the Covid- 19 pandemic with unity, courage and innovation.

During this time of crisis, which is taking the lives of many and putting people's livelihoods at risk, it is essential that our leaders issue a strong response. We therefore welcome the plans to make substantial funds available to fight the health emergency, tackle unemployment, and support Europe’s small businesses, but more will be needed.

Millions of Europeans long for an end to the lockdown, to be reunited with our family and loved ones, and to get back to work. But we do not want a return to business as usual, to an economic model which has exacerbated social inequalities, jeopardised our health, and driven our planet’s climate and nature to the brink of collapse. Instead, we believe that now is the time to radically and rapidly make our economies greener, fairer, and more resilient against future shocks.

While the immediate priority is to address the public health emergency, public stimulus packages will have to be developed to relaunch the economy, create millions of jobs and support people - especially the most vulnerable - through this difficult time. How we respond to the crisis will determine whether we succeed or fail in the fight against climate change, the loss of nature, widespread pollution and inequality, and create health benefits for all. The EU and its governments must therefore demonstrate leadership and foresight by directing all public stimulus investments at accelerating the transition to a just, resilient and sustainable economy, boosting the European Green Deal to deliver even more.

We call upon political leaders to develop comprehensive EU and national Sustainable Recovery Plans. In particular, this means:

- Step up policy action against climate change and biodiversity loss at EU, national and international level, by strengthening and continuing the implementation of the targets, strategies and laws announced in the European Green Deal;

- In high-carbon and other potentially polluting sectors such as intensive agriculture, make support to companies conditional on their alignment with environmental and climate objectives. No bailouts should be given to unviable or polluting industries that have no future in tomorrow's economy. State aid, loans, subsidies and other direct or indirect support to companies must come with strict conditions, monitored and enforced by the EU, and focus on sustainable initiatives and the creation of sustainable jobs;

- The establishment of a sizable green recovery fund backed up by all available EU financial tools (including the MFF and its spending programmes, new funds, the use of the European Stability Mechanism and exploring so-called 'eurobonds'), to finance the

green and just recovery. These interventions must be based on established principles

such as transparency, accountability and community-driven solutions.

- Public and private investment throughout the recovery should be guided by the EU's taxonomy to accelerate the shift from polluting into green sectors; similarly the European Investment Bank should bring its lending policies in line with the European Green Deal objectives by end 2020; In addition, sustainable finance policies should be accelerated and a taxonomy of unsustainable practices to be excluded agreed.

- All recovery plans must put people's well-being at the heart of the crisis response and deliver social benefits and protect workers' rights through a 'just transition for all'.

We support the many appeals for green recovery that have blossomed across Europe:
By 13 EU governments, Members of the European Parliament, the Club of Rome, scientists, NGOs, 200 representatives from business and politics, energy companies, and many more. The European Council had also called on the EU to prepare an economic recovery plan that would integrate the green transition. To these voices we add ours.
Please do not let these calls go unanswered!

Not quite all there.
The 90% economy that lockdowns will leave behind

It will not just be smaller, it will feel strange

Apr 30th 2020

Editor's note: The Economist is making some of its most important coverage of the covid-19 pandemic freely available to readers of The Economist Today, our daily newsletter. To receive it, register here. For our coronavirus tracker and more coverage, see our hub

IN THE 1970s Masahiro Mori, a professor at the Tokyo Institute of Technology, observed that there was something disturbing about robots which looked almost, but not quite, like people. Representations in this "uncanny valley" are close enough to lifelike for their shortfalls and divergences from the familiar to be particularly disconcerting. Today's Chinese economy is exploring a similarly unnerving new terrain. And the rest of the world is following in its uncertain steps.

Whatever the drawbacks of these new lowlands, they are assuredly preferable to the abyss of lockdown. Measures taken to reverse the trajectory of the pandemic around the world have brought with them remarkable economic losses.

Not all sectors of the economy have done terribly. New subscriptions to Netflix increased at twice their usual rate in the first quarter of 2020, with most of that growth coming in March. In America, the sudden stop of revenue from Uber's ride-sharing service in March and April has been partially cushioned by the 25% increase of sales from its food-delivery unit, according to 7Park Data, a data provider.

Yet the general pattern is grim. Data from Womply, a firm which processes transactions on behalf of 450,000 small businesses across America, show that businesses in all sectors have lost substantial revenue. Restaurants, bars and recreational businesses have been badly hit: revenues have declined some two-thirds since March 15th. Travel and tourism may suffer the worst losses. In the EU, where tourism accounts for some 4% of GDP, the number of people travelling by plane fell from 5m to 50,000; on April 19th less than 5% of hotel rooms in Italy and Spain were occupied.

According to calculations made on behalf of The Economist by Now-Casting Economics, a research firm that provides high-frequency economic forecasts to institutional investors, the world economy shrank by 1.3% year-on-year in the first quarter of 2020, driven by a 6.8% year-on-year decline in China's GDP. The Federal Reserve Bank of New York draws on measures such as jobless claims to produce a weekly index of American economic output. It suggests that the country's GDP is currently running about 12% lower than it was a year ago (see chart 1).

These figures fit with attempts by Goldman Sachs, a bank, to estimate the relationship between the severity of lockdowns and their effect on output. It finds, roughly, that an Italian-style lockdown is associated with a GDP decline of 25%. Measures to control the virus while either keeping the economy running reasonably smoothly, as in South Korea, or reopening it, as in China, are associated with a GDP reduction in the region of 10%. That chimes with data which suggest that if Americans chose to avoid person-to-person proximity of the length of an arm or less, occupations worth approximately 10% of national output would become unviable.

The "90% economy" thus created will be, by definition, smaller than that which came before. But its strangeness will be more than a matter of size. There will undoubtedly be relief, fellow feeling, and newly felt or expressed esteem for those who have worked to keep people safe. But there will also be residual fear, pervasive uncertainty, a lack of innovative fervour and deepened inequalities. The fraction of life that is missing will colour people's experience and behaviour in ways that will not be offset by the happy fact that most of what matters is still available and ticking over. In a world where the office is open but the pub is not, qualitative differences in the way life feels will be at least as significant as the drop in output.

The plight of the pub demonstrates that the 90% economy will not be something that can be fixed by fiat. Allowing pubs—and other places of social pleasure—to open counts for little if people do not want to visit them. Many people will have to leave the home in order to work, but they may well feel less comfortable doing so to have a good time. A poll by YouGov on behalf of The Economist finds that over a third of Americans think it will be "several months" before it will be safe to reopen businesses as normal—which suggests that if businesses do reopen some, at least, may stay away.

Ain't nothing but tired

Some indication that the spending effects of a lockdown will persist even after it is over comes from Sweden. Research by Niels Johannesen of Copenhagen University and colleagues finds that aggregate-spending patterns in Sweden and Denmark over the past months look similarly reduced, even though Denmark has had a pretty strict lockdown while official Swedish provisions have been exceptionally relaxed. This suggests that personal choice, rather than government policy, is the biggest factor behind the drop. And personal choices may be harder to reverse.

Discretionary spending by Chinese consumers—the sort that goes on things economists do not see as essentials—is 40% off its level a year ago. Haidilao, a hotpot chain, is seeing a bit more than three parties per table per day—an improvement, but still lower than the 4.8 registered last year, according to a report by Goldman Sachs published in mid-April. Breweries are selling 40% less beer. STR, a data-analytics firm, finds that just one-third of hotel beds in China were occupied during the week ending April 19th. Flights remain far from full (see chart 2).

This less social world is not necessarily bad news for every company. UBS, a bank, reports that a growing number of people in China say that the virus has increased their desire to buy a car—presumably in order to avoid the risk of infection on public transport. The number of passengers on Chinese underground trains is still about a third below last year's level; surface traffic congestion is as bad now as it was then.

Wanting a car, though, will not mean being able to afford one. Drops in discretionary spending are not entirely driven by a residual desire for isolation. They also reflect the fact that some people have a lot less money in the post-lockdown world. Not all those who have lost jobs will quickly find new ones, not least because there is little demand for labour-intensive services such as leisure and hospitality. Even those in jobs will not feel secure, the Chinese experience suggests. Since late March the share of people worried about salary cuts has risen slightly, to 44%, making it their biggest concern for 2020, according to Morgan Stanley, a bank. Many are now recouping the loss of income that they suffered during the most acute phase of the crisis, or paying down debt. All this points to high saving rates in the future, reinforcing low consumption.

A 90% economy is, on one level, an astonishing achievement. Had the pandemic struck even two decades ago, only a tiny minority of people would have been able to work or satisfy their needs. Watching a performance of Beethoven on a computer, or eating a meal from a favourite restaurant at home, is not the same as the real thing—but it is not bad. The lifting of the most stringent lockdowns will also provide respite, both emotionally and physically, since the mere experience of being told what you can and cannot do is unpleasant. Yet in three main ways a 90% economy is a big step down from what came before the pandemic. It will be more fragile; it will be less innovative; and it will be more unfair.

Take fragility first. The return to a semblance of normality could be fleeting. Areas which had apparently controlled the spread of the virus, including Singapore and northern Japan, have imposed or reimposed tough restrictions in response to a rise in the growth rate of new infections. If countries which retain relatively tough social-distancing rules do better at staving off a viral comeback, other countries may feel a need to follow them (see Chaguan). With rules in flux, it will feel hard to plan weeks ahead, let alone months.

Can't start a fire

The behaviour of the economy will be far less predictable. No one really knows for how long firms facing zero revenues, or households who are working reduced hours or not at all, will be able to survive financially. Businesses can keep going temporarily, either by burning cash or by tapping grants and credit lines set up by government—but these are unlimited neither in size nor duration. What is more, a merely illiquid firm can quickly become a truly insolvent one as its earnings stagnate while its debt commitments expand. A rise in corporate and personal bankruptcies, long after the apparently acute phase of the pandemic, seems likely, though governments are trying to forestall them. In the past fortnight bankruptcies in China started to rise relative to last year. On April 28th HSBC, one of the world's largest banks, reported worse-than-expected results, in part because of higher credit losses.

Furthermore, the pandemic has upended norms and conventions about how economic agents behave. In Britain the share of commercial tenants who paid their rent on time fell from 90% to 60% in the first quarter of this year. A growing number of American renters are no longer paying their landlords. Other creditors are being put off, too. In America, close to 40% of business-to-business payments from firms in the spectator-sports and film industries were late in March, double the rate a year ago. Enforcing contracts has become more difficult with many courts closed and social interactions at a standstill. This is perhaps the most insidious means by which weak sectors of the economy will infect otherwise moderately healthy ones.

In an environment of uncertain property rights and unknowable income streams, potential investment projects are not just risky—they are impossible to price. A recent paper by Scott Baker of Northwestern University and colleagues suggests that economic uncertainty is at an all-time high. That may go some way to explaining the results of a weekly survey from Moody's Analytics, a research firm, which finds that businesses' investment intentions are substantially lower even than during the financial crisis of 2007-09. An index which measures American nonresidential construction activity 9-12 months ahead has also hit new lows.

The collapse in investment points to the second trait of the 90% economy: that it will be less innovative. The development of liberal capitalism over the past three centuries went hand in hand with a growth in the number of people exchanging ideas in public or quasi-public spaces. Access to the coffeehouse, the salon or the street protest was always a partial process, favouring some people over others. But a vibrant public sphere fosters creativity.

Innovation is not impossible in a world with less social contact. There is more than one company founded in a garage now worth $1trn. During lockdowns, companies have had to innovate quickly—just look at how many firms have turned their hand to making ventilators, if with mixed success. A handful of firms claim that working from home is so productive that their offices will stay closed for good.

Yet these productivity bonuses look likely to be heavily outweighed by drawbacks. Studies suggest the benefits of working from home only materialise if employees can frequently check in at an office in order to solve problems. Planning new projects is especially difficult. Anyone who has tried to bounce ideas around on Zoom or Skype knows that spontaneity is hard. People are often using bad equipment with poor connections. Nick Bloom of Stanford University, one of the few economists to have studied working from home closely, reckons that there will be a sharp decline in patent applications in 2021.

Cities have proven particularly fertile ground for innovations which drive long-run growth. If Geoffrey West, a physicist who studies complex systems, is right to suggest that doubling a city's population leads to all concerned becoming on aggregate 15% richer, then the emptying-out of urban areas is bad news. MoveBuddha, a relocation website, says that searches for places in New York City's suburbs are up almost 250% compared with this time last year. A paper from New York

University suggests that richer, and thus presumably more educated, New Yorkers—people from whom a disproportionate share of ideas may flow—are particularly likely to have left during the epidemic.

Something happening somewhere

Wherever or however people end up working, the experience of living in a pandemic is not conducive to creative thought. How many people entered lockdown with a determination to immerse themselves in Proust or George Eliot, only to find themselves slumped in front of "Tiger King"? When mental capacity is taken up by worries about whether or not to touch that door handle or whether or not to believe the results of the latest study on the virus, focusing is difficult. Women are more likely to take care of home-schooling and entertainment of bored children (see article), meaning their careers suffer more than men's. Already, research by Tatyana Deryugina, Olga Shurchkov and Jenna Stearns, three economists, finds that the productivity of female economists, as measured by production of research papers, has fallen relative to male ones since the pandemic began.

The growing gender divide in productivity points to the final big problem with the 90% economy: that it is unfair. Liberally regulated economies operating at full capacity tend to have unemployment rates of 4-5%, in part because there will always be people temporarily unemployed as they move from one job to another. The new normal will have higher joblessness. This is not just because GDP will be lower; the decline in output will be particularly concentrated in labour-intensive industries such as leisure and hospitality, reducing employment disproportionately. America's current unemployment rate, real-time data suggest, is between 15-20%.

The lost jobs tended to pay badly, and were more likely to be performed by the young, women and immigrants. Research by Abi Adams-Prassl of Oxford University and colleagues finds that an American who normally earns less than $20,000 a year is twice as likely to have lost their job due to the pandemic as one earning $80,000-plus. Many of those unlucky people do not have the skills, nor the technology, that would enable them to work from home or to retrain for other jobs.

The longer the 90% economy endures, the more such inequalities will deepen. People who already enjoy strong professional networks—largely, those of middle age and higher—may actually quite enjoy the experience of working from home. Notwithstanding the problems of bad internet and irritating children, it may be quite pleasant to chair fewer meetings or performance reviews. Junior folk, even if they make it into an office, will miss out on the expertise and guidance of their seniors. Others with poor professional networks, such as the young or recently arrived immigrants, may find it difficult or impossible to strengthen them, hindering upward mobility, points out Tyler Cowen of George Mason University.

The world economy that went into retreat in March as covid-19 threatened lives was one that looked sound and strong. And the biomedical community is currently working overtime to produce a vaccine that will allow the world to be restored to its full capacity. But estimates suggest that this will take at least another 12 months—and, as with the prospects of the global economy, that figure is highly uncertain. If the adage that it takes two months to form a habit holds, the economy that re-emerges will be fundamentally different. ▪