

For Sudden the Worse Turns the Best

Matt Mimms, 8th May 2020

"For sudden the worst turns the best for the brave" - Robert Browning, Prospice, 1861

It might seem a tad perverse, now at least, to suggest that a post COVID-19 world might present a genuine opportunity to curve out a much better and brighter future.

As I write in early May, the human and economic consequences of the Pandemic are plain to see; approaching 4.1 million diagnosed cases, over 284,000 deaths¹ and a world still in varying forms of lockdown; economic activity has fallen off a cliff, the IMF forecasts global GDP to fall by 3% in 2020; unemployment has soared (over 20 million American's have filed for unemployment and the jobless figure in the US is currently almost 15%). And the impact of the Virus is not quite as indiscriminate as some leading politicians make out. According to the Office of National Statistics in the UK, black men and women are nearly twice as likely to die with coronavirus as white people in England and Wales². Similarly, those living in the poorest parts of England and Wales were dying at twice the rate of those in the richest areas³. The United Nations World Food Programme has warned that the pandemic could almost double the number of people suffering acute hunger around the world.

As we know all too well, financial markets were initially hit hard albeit have recovered strongly since (the S & P 500 is still some 13% down from its February high as at time of speaking).

More recently, there has been some better (relatively speaking) news. In many countries, in Europe, in the US the curve is flattening, and in a few others, including New Zealand, has been crushed. In addition, government and central banks has launched massive responses in an effort to stave off the worst effects of the Pandemic, in an attempt to offer a bridge to such time that the economic lockdown can be lifted in any sustainable way; from interest rate cuts to asset purchase programs, from wage subsidies to cash handouts, the extent of the monetary and fiscal support (and borrowing) has been unprecedented. According to the Centre for Strategic and International Studies, the G-20 economies have to date committed \$6.3 trillion USD in fiscal support which represents 9.3% of the G-20's 2019 GDP.

As many countries take the first tentative steps to opening up their economies, the focus will quite rightly begin to shift not only on the success of post lock down policies (like test, track, trace and quarantine), the development of a vaccine or effective treatment and avoiding overwhelming subsequent waves, but on the appropriate economic policy to re-invigorate the global economy, protect businesses, and to save and create jobs.

COVID-19 is of course the key present danger. Perhaps the other key existential risk is climate change. One consequence of the economic damage caused by COVID-19 has been falls in greenhouse gas emissions (and pollution). Before and after pictures from cities like Delhi in India illustrate the impact on pollution. The Climate Action Tracker estimates global CO2 emissions are likely to fall by between 4 and 11% in 2020, the International Energy Association predicts an 8% fall. However, these falls (and benefits) may well be short lived and much will depend on global policy.

At the end of 2019, the world remained somewhat off course to achieve the goal of keeping global temperature increases to below 1.5C. It is estimated that emissions of greenhouse gases must fall by 7.6% per annum for the next decade to achieve this target⁴. Last year they were up, and growth has averaged 1.5% for the past decade⁵. Looking at history, emissions have typically increased sharply post an economic downturn. In the 2010, emissions were up 6% on the previous (GFC-affected) year⁶.

Will there ever be a better opportunity to develop and co-ordinate policy that combines post COVID-recovery with resolving the climate change (and indeed other pressing) issues?

Already groups and organisations around the world are calling for this and offering policy solutions...

- In the UK, the Committee on Climate Change has written to the PM and the First Ministers of the devolved governments highlighting the need for global planning and proposing 6 Resilience Principles which focus climate related investments, a shift towards positive long term behaviours

(such as home-working and remote medical appointments), and strengthening the incentive to reduce greenhouse emissions when implementing tax changes⁷.

- The Club of Rome has called on world leaders “to act on climate, protect nature and promote health and wellbeing”, and that solutions should include investing in renewable energy instead of fossil fuels; investing in protecting nature and re-forestation; nature-based solutions; investing in safe and sustainable food systems and regenerative agriculture; and, shifting to a more local, circular and low carbon economy⁸.
- The Carbon Tracker Initiative has developed a framework that includes do and don'ts of a green economic recovery. Do's include direct support for zero-emissions technology and infrastructure in the energy and electricity supply sector, financial incentives for zero-emissions vehicles, support for energy efficient retrofit of existing buildings and large-scale landscape restoration and reforestation efforts. Don'ts include bailing out fossil fuel and automobile companies without conditions for zero-emissions transition recovery, and the roll-back of environmental regulations⁹.
- An informal grouping called the Green Recovery Alliance was recently launched by some EU MEPS, environment ministers and CEOs. The group calls for climate change and bio-diversity protection to be at the heart of any EU COVID-19 recovery plan. Interestingly, it is supported by CEOs of some of the larger banks and insurers including BNP Paribas, AXA, Allianz, and Santander¹⁰.
- The Investor Group for Climate Change (IGCC), which represents institutional investors with an interest in climate change action, has set out a number of recommendations for sustainable recovery including prioritising human relief and jobs, upholding the Paris Agreement, ensuring Government responses address climate risk, prioritise climate resiliency and net zero emissions¹¹.
- In a just released report out from the Smith School of Enterprise (Oxford University) entitled, ‘Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?’, a team of internationally-recognised experts, and including Nobel prize winner Joseph Stiglitz and well-known climate economist Nicholas Stern, came together to assess the economic and climate impact of taking a green route out of the crisis. The Report conducted a global survey of 231 experts from 53 countries which included senior staff from central banks and finance departments. Drawing on this survey as well as learnings from the 2008 financial crisis, the economists found that green projects create more jobs, deliver higher short-term returns per dollar spend and lead to increased long-term cost savings, by comparison with traditional fiscal stimulus¹².
- In NZ, the Co-Chairs of the Sustainable Finance Forum (an initiative of the Aotearoa Circle) wrote to the Minister of Finance stating that the crisis now presents New Zealand with a prized opportunity to embrace the concepts of sustainability and resilience within the economic recovery and renewal programme. In the letter they outline some of the beliefs and characteristics to apply to Wave 3, the Recovery and Renewal Programme. These focus on changing mindset (e.g. activities which protect and enable the most vulnerable in society which in turn drives inclusive growth and reduces unemployment), greening finance (e.g. aligning investments with sustainability criteria which in turn align with the Paris Agreement and the Sustainable Development Goals), and financing green (e.g. increase Government funding to vehicles with dedicated sustainability and adaptation mandates)¹³
- Finally, the Responsible Investment Association of Australasia has launched a Principles for Responsible Recovery which encourages the investment and advisory community in Australia and New Zealand to co-develop a set of principles that focus on inclusiveness, democracy, participation, alignment with the Paris Agreement and SDGs and better preparedness for future shocks¹⁴.

It is interesting to note that many of these initiatives are not just focussed on climate but on inclusivity and greater equality such that the recovery, when it comes, benefits all.

These are unprecedented times. The scope and size of government and central bank intervention illustrates that when required, governments can set and fund policy to alleviate the worst impacts (in the short term at least) of this Pandemic. COVID-19 is tragedy of immense proportion. But it also offers a unique opportunity (through national and globally co-ordinated action, the later sadly and largely missing in the fight to date against COVID-19), not to go back to the same old ways, but to do things cleaner, fairer and better.

“We must answer the big questions about our economy in these unprecedented times. What should we make and do here in New Zealand to ensure our sustainability; what institutions do we need to support our economy; what is the role of the State; how do we trade with the rest of the world in this new environment; and how will the financial system, both here and globally, cope? Climate Change will continue to be a major

challenge long after the effects of this pandemic have been mitigated...our economic recovery needs to be one where emissions continue to reduce, and more sustainable technologies are invested in and taken up”
- NZ Finance Minister, Grant Robertson – from a (virtual) speech to Business New Zealand (April 2020).

References and Further Reading

- ¹<https://www.bbc.com/news/world-51235105>
- ²<https://www.theguardian.com/world/2020/may/01/british-bame-covid-19-death-rate-more-than-twice-that-of-whites>
- ³<https://www.theguardian.com/world/2020/may/01/covid-19-deaths-twice-as-high-in-poorest-areas-in-england-and-wales>
- ⁴<https://www.carbonbrief.org/analysis-coronavirus-set-to-cause-largest-ever-annual-fall-in-co2-emissions>
- ⁵<https://www.theguardian.com/environment/2019/nov/26/united-nations-global-effort-cut-emissions-stop-climate-chaos-2030>
- ⁶<https://www.bbc.com/news/science-environment-52485712>
- ⁷<https://www.theccc.org.uk/2020/05/06/take-urgent-action-on-six-key-principles-for-a-resilient-recovery/>
- ⁸<https://clubofrome.org/impact-hubs/climate-emergency/leaders-quotes-in-response-to-the-petersberg-climate-dialogue/>
- ⁹https://climateactiontracker.org/documents/706/CAT_2020-04-27_Briefing_COVID19_Apr2020.pdf
- ¹⁰<https://www.euractiv.com/section/energy-environment/news/financiers-join-eu-green-recovery-alliance/>
- ¹¹<https://igcc.org.au/international-investor-groups-call-for-governments-to-work-towards-a-sustainable-recovery-from-covid-19/>
- ¹²Hepburn, C., O’Callaghan, B., Stern, N., Stiglitz, J., and Zenghelis, D. (2020), ‘Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?’, Smith School Working Paper 20-02. Also <https://www.smithschool.ox.ac.uk/news/articles/200505-building-back-better-net-zero-emissions-recovery.html>
- ¹³Please refer to the Aotearoa Circle news webpage – as at date of writing, the letter referred to above has not been added but will be shortly - <https://www.theaotearoacircle.nz/news>
- ¹⁴<https://responsibleinvestment.org/compounding-crises-are-what-weve-all-been-rehearsing-for-now-is-the-time-for-responsible-investment/>

Disclaimer – Matthew Mimms is a board member of the Responsible Investment Association of Australasia and is a member of the technical working group for the NZ Sustainable Finance Forum.

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