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Climate Politics after the Coronavirus: What Can We Learn from the Pandemic?

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The political and economic consequences of the new coronavirus have been widely debated in the media. Financial markets have been in distress since the virus spread to developed countries, and in all likelihood the global economy is heading towards a recession. In the political realm, experts predict rising tensions between the United States and China, coordination problems within the European Union, and possible upheavals in the developing countries. In all effect, the world is more turbulent than it was only a couple of months ago.

While the measures to contain the virus outbreak have pushed down consumption and pollution rates, it is yet not clear how it will shape climate governance. However evident the link between respiratory diseases and air quality may seem, policy-makers have focused on a single side of this public health issue: controlling contagion. But we believe the current pandemic teaches us important lessons about climate change, such as how to mitigate future risks and how to overcome hurdles in international cooperation.

While the fast rate of virus infection did not give governments enough time to prepare, there is still time to avoid the worst-case scenarios in regards to global warming. Below, we discuss what we can learn from the international responses to the coronavirus and present a few suggestions for policy-makers.

Black Swans and Grey Rhinos

References to the coronavirus being a “black swan” are all over the headlines. Nassim Taleb, a mathematician and former hedge fund manager, defines a black swan event as something that is highly unlikely to happen, has enormous impacts on human affairs, but after the event occurs it seems obvious and predictable. We have seen many black swans throughout history, such as the 9/11 terrorist attacks, the collapse of the Soviet Union, and the outbreak of World War I.

The coronavirus is not one of them. And not only because Mr Taleb himself said so in a recent interview. For more than a decade, experts have warned policy-makers that a pandemic was on the horizon, and in 2018 the United States made a simulation to assess the potential effects of an epidemic -- the report stated the country was unprepared for the event. After the SARS outbreak in 2002 and the Ebola epidemic in 2013, it is hard to tell that a similar threat would be unlikely.

Enters the “grey rhino”. Like black swans, grey rhinos are events that have a massive social impact. But in contrast with its aviary counterpart, grey rhinos are predictable; yet their negative effects come from neglect. Michele Wucker, the American policy analyst who coined the term, affirmed that psychological biases and group-thinking might blind us from taking correct decisions even if there is enough evidence that a threat lies ahead. She gives the Greek debt crisis as a major example of what a grey rhino looks like. Greece had defaulted 5 times before 2008, and it was quite evident for financiers and international institutions that the country would do the same in the future. And to no one's surprise, it eventually did.

In this respect, we can frame both the COVID-19 pandemic and climate change as grey rhinos. There is plenty of scientific evidence suggesting that the two events are not unexpected yet they bring serious consequences for humanity. Given their similarities, the public responses to the coronavirus may give some clues about how states, the civil society, and international organisations will behave when climate change becomes more threatening. Although there are many reasons to worry about responses to climate change, we see some reasons to be hopeful too.

A Window into the Low-Carbon Economy

One of the immediate results of the coronavirus outbreak is the sharp reduction in industrial activity. As such, the pandemic has led to a large fall in carbon emissions around the globe. To be clear, this is of course an unintended consequence of the virus. While this is good news for the environment, the human suffering the COVID-19 has caused outweighs by far any benefit we might accrue from the temporary halt in economic growth. Despite the drop, we still emit more carbon than ever.

But that means something. The lower emissions suggest that businesses might (emphasis on might) adapt quickly enough to avoid a climate crisis in the near future. And the change must be widespread in the economy. Airline carriers and carmakers are the sectors most affected by the current pandemic, or at least that is what government bailout plans indicate. Yet, they account for only a fraction of the reductions necessary to achieve a low-carbon economy. But businesses that survive the virus outbreak will likely be more cost-conscious than before, therefore they have an incentive to keep fossil fuel emissions lower.

The virus has also shown how remote work can be a good alternative for large shares of the workforce. Conference software such as Skype and Zoom have replaced in-person meetings, and messaging applications like WhatsApp efficiently resolves immediate concerns among colleagues. Already a trend before the virus, "working from home" should gain traction after the crisis. It is still unclear how this trend could impact labour productivity, but if the effects are small, it might be a measure worth considering more seriously.

The pandemic will likely speed up changes in buying habits. Data show that young consumers are more environmentally-conscious than older generations, and there are good reasons to believe that the shift will be permanent. Car ownership, which used to be a hallmark of independence for baby boomers, is much less important to youngsters, who overall favour ride-hailing services such as Uber or Lyft. Moreover, environmentally-friendly brands like TOMS or Patagonia have increased sales even during economic downturns. A recent study sponsored by IBM shows that two-thirds of Americans prefer sustainable brands and are willing to pay a premium for that. Eco-capitalism can be profitable, too.

To sum up, the coronavirus can be a catalyst to positive changes in consumption and lead to more efficient use of natural resources. Developed countries have to take the lead in this regard, as it is easier for them to adjust, and even reduce, their fossil fuel-intensive consumption patterns. But developing countries can also collaborate by supporting sustainable businesses and educating citizens about the benefits of eco-friendly products. Individuals can help to reduce carbon emissions, and the current outbreak provides some hints about how to do so.

Facts, Not Narratives

Another positive aspect of the coronavirus outbreak is the renewed appreciation for scientific knowledge. The public has avidly turned to experts to look for evidence-based recommendations, and hitherto ignored research have gained unexpected prominence in the media. Examples abound. In the United States, Dr. Anthony Fauci, the director of the National Institute of Allergy and Infectious Diseases, has become a household name after he corrected President Trump about the severity of the pandemic. Dr. Neil Ferguson, an epidemiologist at Imperial College London, has made the headlines as his simulations now inform decision-makers worldwide. Not bad for an otherwise arcane discipline.

To a large extent, the pandemic shows the limits of the populist narrative. Populist leaders have bashed all types of elites, including academics, for their alleged snobbishness and "unrooted cosmopolitanism", which go against the interests of the "true people" broadly defined. Now this discourse seems detached from reality. Scientists and moderate politicians are widely regarded by the population as providing reasonable and accurate advice when society needs it the most. Unsurprisingly, approval rates of politicians such as Angela Merkel and Emmanuel Macron have soared while populists like Jair Bolsonaro and Mateo Salvini are unable to galvanise their supporters. When times are bad, facts trump rhetorics.

We hope this boost of credibility experts have received can also help the climate change debate. Despite the fact that the Intergovernmental Panel on Climate Change (IPCC) and Al Gore shared the 2007 Nobel Peace Prize, climate specialists have not gained the prominence they deserve in public discourse. But the coronavirus outbreak shows that it is possible for citizens to revalue the merits of scientific research and take academic knowledge seriously.

The need for decisive political leadership has become more evident, too. Leaders who have been quick to take preventive measures for the virus spread have been lauded both at home and abroad. Citizens do support strict social distancing when provided with clear information about the predicted impact of the COVID-19, and this may also be the case for climate change. Politicians need to communicate more frankly the risks of global warming and indicate how such a drastic change in the environment could be terribly harmful to their voters. If the public understands the risks of an epidemic, they should be able to understand the costs of a global catastrophe, too.

Global Markets after the Virus

Although the current prospects for the global economy seem grim, we believe the post-virus economic environment can help climate action. And not only because of shifts in consumer preferences, as we indicated earlier. Macro-level economic changes, which we think will last a long time, should be taken into consideration.

First, low-interest rates are here to stay. With governments flooding financial markets with cheap bonds and abundant credit, businesses that were not previously viable might stand a chance to compete. This is particularly true for renewable energies. Currently, solar panels and wind turbines remain costly when compared to fossil fuels -- even more so after the recent slash in oil prices. But low bond yields may drive investors to look for more profitable alternatives, so renewable projects might become more attractive. New funding capital can help smaller factories to invest in technology to reduce production costs and bring prices down to the individual consumer. If this virtuous cycle materialises, firms would achieve economies of scale, which would then attract further investors. So while low-interest rates do not benefit everyone -- think of pension funds who have to take more risks to pay their premiums -- they can be good news for green industries.

Second, if oil prices remain depressed for the next years, a number of oil-producing firms will be pushed out of the market. For instance, costs of oil production for Brazil's pre-salt reserve are about 40 dollars per barrel; Mexico needs a fiscal breakeven price of $49 dollars to meet their budgetary goals. As of early April 2020, the crude negotiates at about $30 per barrel. Therefore, there should be a strong incentive for those countries to halt further investments in fossil fuels and diversify their energy mix. This also sends a signal to industries that oil supply might be permanently reduced in the near future, thus firms will have to search for new ways to "decarbonise" their supply chains.

There are countervailing factors that can slow these trends. One of them is the scarcity of raw materials such as lithium and nickel. Elon Musk, the major stockholder of the electric car maker Tesla Motors, recently warned that the shortage of lithium is currently so severe that it can dramatically increase the price of rechargeable batteries. Moreover, China holds important lithium reserves, and the government might not be willing to trade the materials in an open market.

Industry sectors affected by the coronavirus might also get an extension to implement carbon-reducing measures. Airlines are lobbying the European Parliament to scrap carbon taxes, and the car industry is trying to delay regulation on fuel efficiency. They might succeed, but policy-makers should ensure that the breaks are temporary.

Crisis-Proof Safety Nets

The last issue we would like to discuss regards to social safety nets for those affected by systemic events. Studies show that natural disasters have a larger effect on the poor, and catastrophes such as hurricanes or floods tend to widen the income gap in the long run. The finding is intuitive. Wealthier families have different assets to sell in times of need and, in the same vein, have more access to credit should they face unpredicted expenses. Even a small increment in income translates to a large increase in resilience.

But even the middle-class has suffered in the current crisis. Public service provision has been notably inefficient in many countries. Child care assistance remains limited in developed and developing nations alike, and access to paid family leave remains spotty. These are issues that have become apparent during the COVID-19 outbreak and that serve as a warning for the looming climate issues.

One suggestion is to adopt government assistance based on families, not on individuals like most countries do today. Germany is a good example where the welfare system is organised around the family. Benefits for stay-at-home parents to take care of their children, monetary support for kids and teenagers and financial aid for those who do not meet the minimum standards of living have been part of the country's successful approach to welfare. We have seen positive examples in Latin America, too. Peru has expanded its safety net to include financial and social services for families and, combined with rapid economic growth, has lifted one-third of the country's population out of poverty. This is a remarkable achievement. It is informative too. It indicates that pro-growth policies are compatible with income redistribution, and that helping the poor make a country more entrepreneurial. Climate change will require innovative thinking and technology, and robust social safety nets may prove an asset.

Lastly, we would like to highlight that individuals should remember that no occupation is "recession-proof". Latin American middle-classes are also not immune to severe economic recession, as COVID-19 pandemic shows, so everyone should plan accordingly should a climate-related event occur. In the recent crisis, government support has been provided mainly to workers, yet the region's historically low saving rate may put even wealthier families in financial distress. Financial education helps in this regard. Informative programmes on the benefits of having emergency money covering at least three months of expenses, deposited in low-volatility assets, would be most welcome. The fact that government stimulus may either be insufficient or delayed indicates that both the less privileged and the middle-class will have to prepare for disaster-caused financial downturns.

In a nutshell, we believe that the current coronavirus pandemic provides a peek on how the world will be when climate change becomes more pressing. The lessons we can learn are many: prepare for underestimated systemic risks, take scientific evidence seriously, seize the cheap capital opportunities to fund sustainable initiatives, and secure a reliable safety net to those most severely affected by climate disasters. We cannot choose the problems we will confront, but we can choose *how* we confront them. It is therefore in our hands to leave a safer, more resilient world to ourselves and those yet to come.

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