TRANSFORMATIVE RESPONSES TO THE CRISIS

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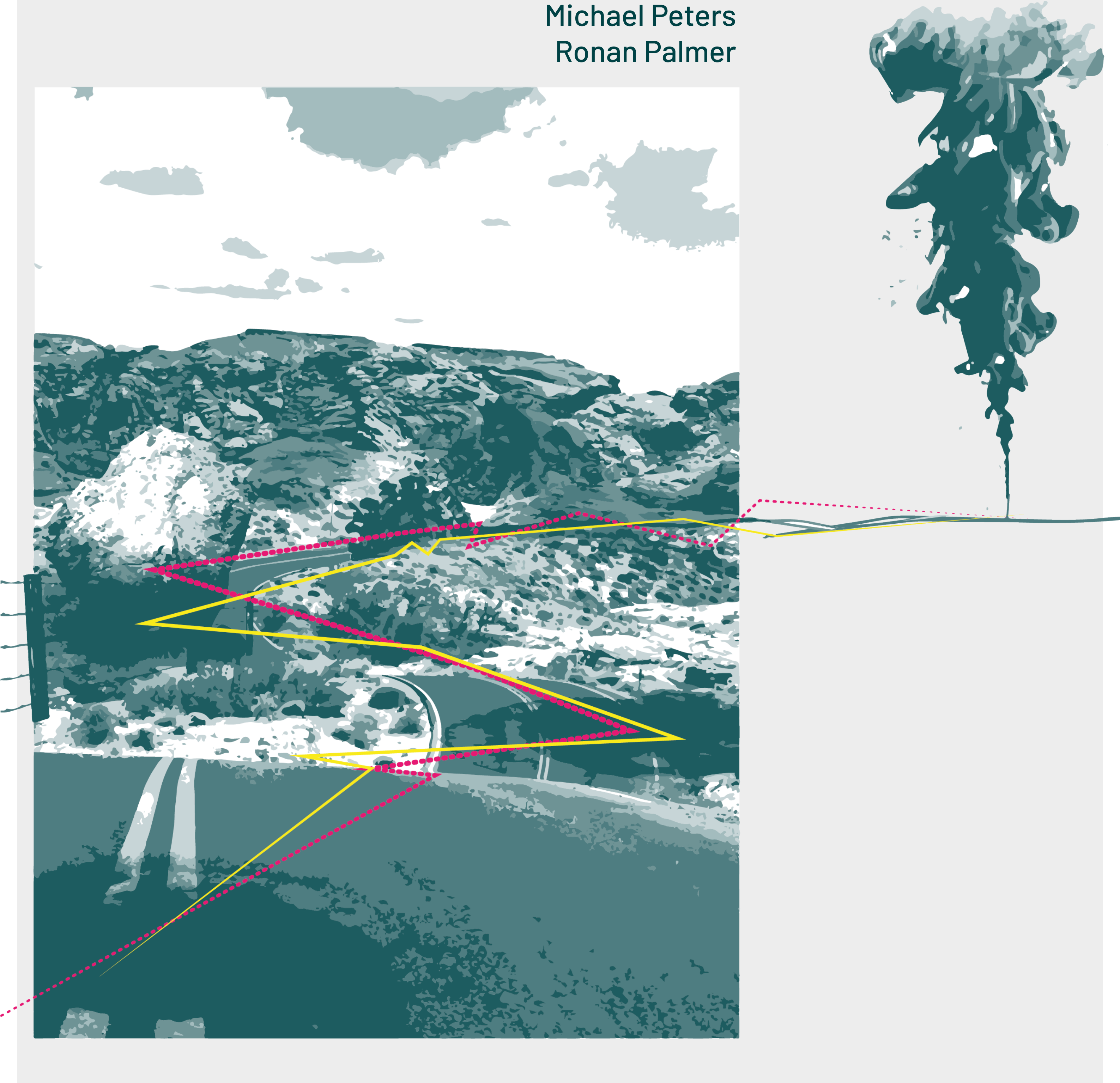

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Preface

Dr. Gerhard Schick, Finanzwende Recherche

Anticipating systemic crises is difficult. Using the policy response to foster transformative change is likely to be even more difficult. Especially if there are no emergency policy plans. Politicians have to decide quickly with disaster looming. Yet, the responses to two systemic crises in the last fifteen years mobilized unthinkable resources, both financial and political. This is something I experienced myself during my 13 years as a member of the Bundestag (German parliament) for the Green party.

Looking back on the great financial crisis of 2008, politicians around the world were worried that the entire financial system was about to melt down, bringing the economy crashing down and destroying millions of jobs. This prompted massive bank bailouts, tied to the promise of stricter reforms and never using public money for bailouts again. Regulation was supposed to ensure that the highly leveraged business models used in finance were no longer feasible. While Basel III is a significant improvement on previous finance regulation, the sector is still highly leveraged and more risks have been transferred from traditional banks to shadow banks, still enabling the same type of pre-2008 business models.

Strong vested interests were one of the main reasons that prevented tougher regulation, and a part of the reason why I decided to step down from the Bundestag in 2018, and founded Finanzwende, a German civil society organisation advocating to make the financial system benefit everyone.

Building on my previous experience, I wanted Finanzwende to prepare for future crises. That is why in 2019, together with the Heinrich-Böll-Foundation, we started planning a project called Transformative Responses to the Next Crisis. Our aim was to convene civil society, academia and policymakers to identify future systemic crisis scenarios and prepare response proposals. The project was supposed to start in March 2020 and hence, coincided with the Covid-19 pandemic. This showed that while our original approach proved to be right, unfortunately, we were not ready in time. We have since realigned the project with our network to address gaps that we see in moving towards a socio-ecological transformation.

Together with my colleague Michael Peters and Ronan Palmer from E3G (Third Generation Environmentalism) we revisited what we have learned from the past and present crises and how this can help foster transformational change. I encourage you to read it and hope this will help us make progress in the way we think about the transformation.

Introduction

The idea behind Transformative Responses is to ensure that we can address our current social and ecological challenges, while increasing the resilience of our economic systems. Our economies need a social and ecological transformation. We need to transition away from fossil fuels to a low carbon economy, while at the same time paying fair wages that decrease overall inequality and assure a good life within planetary boundaries. If we want this transformation to succeed, we will have to accept that systemic crises have become a common phenomenon and plan the transformation accordingly.

The Covid-19 crisis is a case in point. Scientists have warned of global pandemics for a long time, yet most countries were unprepared at its onset. They have tended to see the pandemic as a random, once in a lifetime event. However, we propose viewing it as another one of more frequent systemic crises. We were still in the aftermath of the Great Financial Crisis and the Euro Crisis, and still in the middle of the climate and environmental emergency, when the pandemic hit. Yet many politicians have called for a return to normality. Take, for example, this quote from Joe Biden's address to the nation on March 11, 2021, where he calls for a return "back to normal".

> *"Because even if we devote every resource we have, beating this virus and getting back to normal depends on national unity. […] And history, I believe, will record we faced and overcame one of the toughest and darkest periods in this nation's history — darkest we've ever known."* [1]

The President did not specify what he meant by normal. We can assume he meant a pandemic-free life, with some form of stability. However, contrary to what President Biden and others are envisioning, this form of "normality" will probably not come back. The frequency of systemic crises has increased, and they are here to stay.[2] There were warnings for each of the above-mentioned situations, but governments were not prepared for them. The lack of preparedness in turn leads to a form of reactive politics, trying to respond quickly to the crisis without addressing the underlying issues.

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[1] Joseph Biden (2021), *Remarks by President Biden on the Anniversary of the COVID-19 Shutdown*, 11.03.2021, https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/03/11/remarks-by-president-biden-on-the-anniversary-of-the-covid-19-shutdown/; In fact he makes two references to "normal" in his speech. The other is an equally powerful statement of the view that there is a "normal" to get back to: "And for all of you asking when things will get back to normal, here is the truth: The only way to get our lives back, to get our economy back on track is to beat the virus."

[2] Transformative Responses (2021), *Beyond crisis mode: building a resilient society*, https://transformative-responses.org/the-project/beyond-crisis-mode-building-a-resilient-society/

This reactive politics is a problem for the social and ecological transformation. The opposite of reactive policies is planning and investment in the present, for a better future. Tackling climate-change and inequality requires a complete overhaul of our current economy, and planning and forward-looking investment now – not a return to the past. We want full employment of all currently available resources and investment to continuously expand capacity. So that the massive public and private resources needed can be mobilized on a path towards zero emissions, while creating new and better-paid jobs. This requires overcoming vested economic interests that hinder the transition and reversing long-term trends such as financialization. In such cases, reactive politics can rapidly become reactionary politics. Neither will help us prevent crises, nor foster the transformation.

Our systems' inherent vulnerability to crises goes hand in hand with a politics that only reacts, rather than deliberates and responds. Each crisis gives us the opportunity to reconsider how to design our economy and foster significant change. **We have to make use of them.** Political election cycles are short, media attention cycles are even shorter. The only time massive public money has been spent in the past fifteen years was in response to unforeseen crises, be it the Great Financial Crisis or the pandemic, followed by intense austerity. The Next Generation EU program illustrates how the joint sense of crisis can foster previously unthinkable political change: a true leap forward.

Any policy proposals aiming at a social and ecological transformation need to account for the crisis-prone nature of our system to be successful. For us, this is an application of what the World Bank describes as decision-making under uncertainty.[3] Transformative policies need to increase the resilience of our system, limiting the potential effects of the next crisis, whether it be financial, societal or ecological. However, they also need to use the political bargaining opportunity of a systemic crisis, and the growing recognition of the valid role of the state, to create a major policy shift. For example, a far-reaching proposal, for something like greater monetary or fiscal coordination, or a global carbon tax – proposals that would not fly in "normal" times – could become a politically credible cornerstone of the next crisis response. Depending on how comprehensive the currently discussed global corporate tax deal ends up, one could argue it is an example that would have been more challenging to achieve without a crisis.

[3] E.g. Hallegatte et al. (2012), *Investment Decision Making Under Deep Uncertainty: Application to Climate Change*, The World Bank, Sustainable Development Network, Office of the chief Economist, 09.2012, https://openknowledge.worldbank.org/bitstream/handle/10986/12028/wps6193.pdf?sequence=1&isAllowed=y

Systemic crises: the new normal?

What do we mean by systemic crises and have they really become the new normal? There are regular ups and downs in economic activity; exogenous shocks can change the flow of goods or influence the distribution of economic power; companies can go out of business. In response, governments launch stimulus packages and central banks use their existing tools to manage crises. These are "traditional" crises, which can be resolved within the framework of existing institutions and procedures of our economic system.

In our definition, crises are systemic when not only individual market actors get into trouble, but also the economic order as a whole threatens to collapse; when new institutions are needed to overcome them or existing procedures and rules have to be suspended, and new ones found to prevent a meltdown of the economic system.

We are relying on previous research done by the Overseas Development institute (ODI) which finds that threats have become more interconnected in the past decade and issues such as climate change, economic and financial instability, antibiotic resistance, occur across national borders and often simultaneously. Supporting why crises have increasingly become "systemic". [4] In his book *Hot, Flat and Crowded* Thomas L. Friedman argues that global warming and high population growth have produced an unstable planet. He analyses that events such as the great financial crisis derive from how our economic system functions. [5]

For illustrative purposes, let us look at Angela Merkel's time as German chancellor. First elected in 2005 she is about to leave office in September 2021 – with 16 years at the top, she is one of the longest running democratically elected heads of state. However, during her time in power, she has faced multiple systemic crises.

After taking office in 2005, her first years were dominated by the great financial crisis (2007-2009). This systemic crisis, which came close to a complete collapse of the financial system, was only solved through public bank bailouts, the joint intervention of the G20, ad-hoc legislation outside existing procedures and unprecedented (global) central bank intervention (the Fed's dollar swap lines).

[4] Opitz-Stapleton et al. (2019), *Risk-informed development: from crisis to resilience*, 29.05.2019, https://odi.org/en/publications/risk-informed-development-from-crisis-to-resilience/

[5] Friedman, Thomas (2009): *Hot, Flat, and Crowded: Why We Need a Green Revolution – and How It Can Renew America*.

The massive public bailouts eventually led to the Eurocrisis (2010-2012), which threatened the survival of the Eurozone and hence the European Union. This second systemic crisis of her chancellorship was only addressed through unprecedented European actions, which had to be created from scratch and culminated in the new ESM framework. Once again, massive central bank intervention, with the state explicitly stepping into and supporting markets, played a crucial role.

After a comparatively quieter period, the summer of 2015 proved a crucial point of Merkel's legacy. Large groups of refugees started making their way to Northern Europe. Contrary to some politically-motivated myths, this was not a surprise: Southern Europe had already experienced this in 2014. The new "Balkan Route" had brought the refugees closer to Germany.[6] It is not the unforeseen numbers of refugees and the humanitarian crisis that makes this an example of systemic crisis, but the fact that German authorities were initially incapable of dealing with the over a million asylum seekers without the ad hoc support of civil society. Existing procedures had to be changed, which meant making use of the sovereignty clause of the Dublin Regulation for Syrian refugees and opening the borders.[7][8]

Fast-forward to February 2020 when the Covid-19 pandemic started taking a hold in Europe. Another systemic crisis, the pandemic presented a serious risk of overwhelming the health system, and could only be managed with hitherto unthinkable measures in peacetime – curfews, travel restrictions within countries, and a far-reaching shutdown of public life. It has since led to massive socio-economic consequences and equally massive reactions by public authorities. Even spend-thrift Germany reacted with enormous debt-financed crisis mitigation programmes, called "the Bazooka" by German finance minister Olaf Scholz. The Maastricht rules were suspended in order to enable a significant fiscal response by EU member states.

In her 16 years of office, Merkel has arguably spent half the time fighting systemic crises. Many of her major policy shifts have been in response to one of these events. One could add her decision to move away from nuclear energy in 2011, after the Fukushima catastrophe. Learning from that experience means realizing that systemic crises have become more frequent, arguably a new normal.[9]

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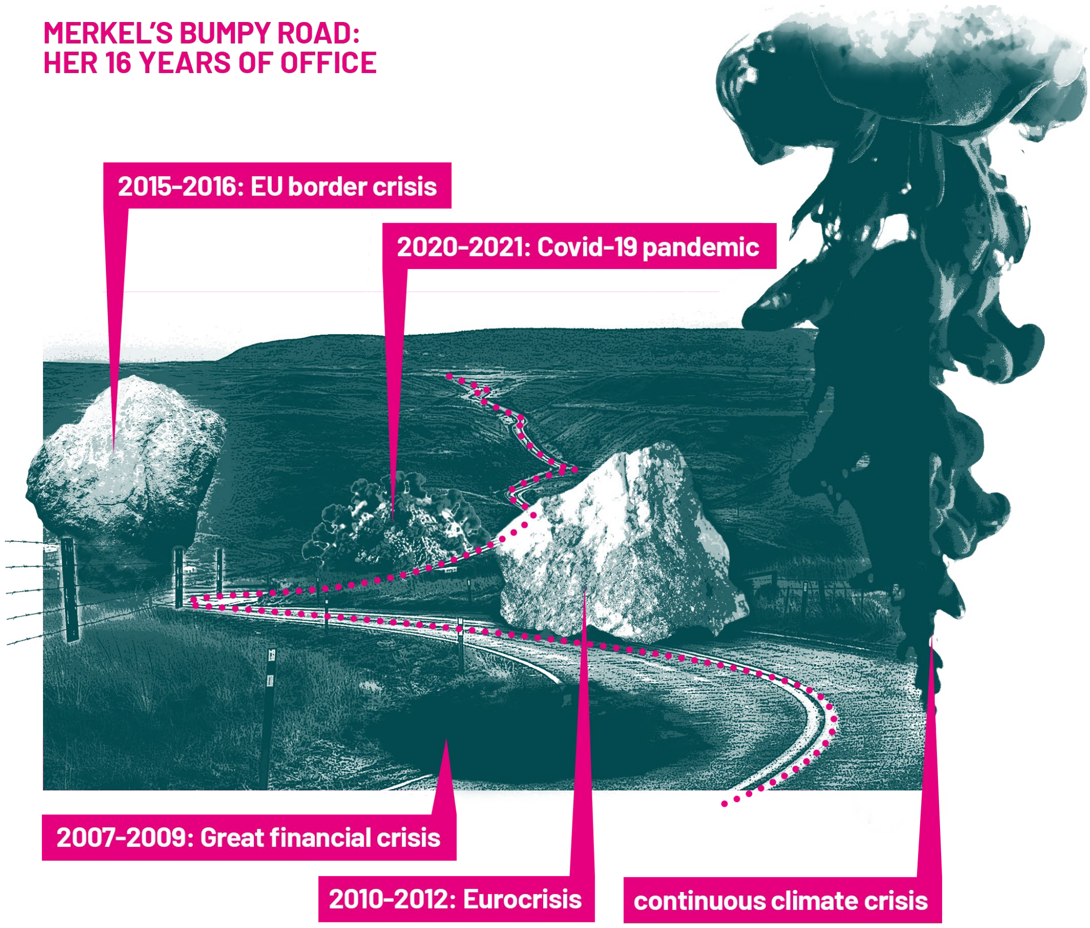
[6] The University of British Columbia (2021), *The 2015 European Refugee Crisis*, https://cases.open.ubc.ca/the-2015-european-refugee-crisis/

[7] Cynthia Kroet (2016), *Germany: 1.1 million refugee arrivals in 2015, Interior minister wants to 'sharply reduce' the number for 2016*, 06.01.2016, https://www.politico.eu/article/germany-1-1-million-refugee-arrivals-in-2015/

[8] Michael Kalkamann (2016), *Country Report: Germany*, Asylum Information Database, 31.12.2016, https://asylumineurope.org/wp-content/uploads/2017/03/report-download_aida_de_2016update.pdf

[9] Marxist literature has argued that the recent past has seen a systemic crisis of capitalism and that events such as the Global Financial Crisis, Eurocrisis and the Covid-19 pandemic are different outgrowths of the same crisis.



Financial markets

Let us focus on the financial sector next, where a similar picture presents itself. The IMF graph shows at least seven financial crises of global impact between 1980 and 2010. [10] Rather than being infrequent, a financial crisis of global impact seems to be a frequent, almost normal event. Soon after the graph was published in 2010, the Eurocrisis erupted, to be followed by the taper tantrum in 2013 and the Covid-19 financial crisis. While one could argue the pandemic was bound to lead to some form of financial crisis, there are clear signs that the financial system was already under pressure before. [11] The reasons, however, remain similar: lax financial regulation enabling high leverage; excessive reliance on short-term funding and an unstable dollar system. Our financial system continues to be unstable, as it serves primarily itself - maximisation of the returns of financial companies - rather than the "real economy".

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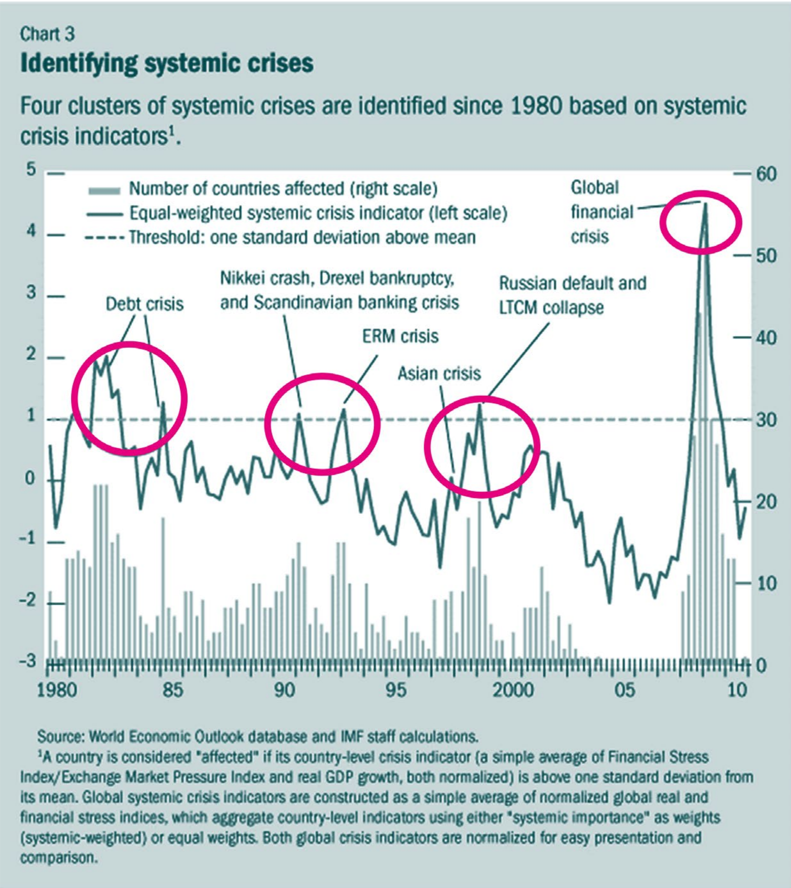
[10] Bi & Lanau (2011), *IMF Survey: IMF Continues Push Toward Enhanced Global Financial Safety Net*, 25.07.2011, https://www.imf.org/en/News/Articles/2015/09/28/04/53/sores072211a; based on data from Analytics of Systemic Crises and the Role of Global Financial Safety Nets, IMF Strategy, Policy & Review Department, May 31, 2011
[11] Joscha Wullweber (2020), *The COVID-19 financial crisis, global financial instabilities and transformations in the financial system*, Berlin, Finanzwende/ Heinrich-Böll-Foundation, https://transformative-responses.org/wp-content/uploads/2020/12/Wullweber-2020-The-Covid-19-financial-crisis.pdf; The paper also includes an analysis of what happened financial markets in the early months of the current crisis, illustrating again the volatility of the current system.

The financial crisis of March 2020 was even scarier than the Lehman moment in 2008, as it almost brought down the US treasury market, which until then had been seen as the safe haven in times of crises.[12] A complete financial meltdown could only be prevented through never-before-seen levels of central bank intervention. Again, an example of policy-making that reacts, while doing little to tackle systemic problems. To make matters worse, it has had major side effects such as increasing wealth inequality and an inherent high-carbon bias.[13] Quantitative easing (Q.E.) has inflated asset prices massively, further enriching those that own assets such as real estate or stocks.[14] Theoretically, Q.E. was intended to promote private investment; instead investors have channelled their money mainly into financial assets with minimal positive impact on the real economy.[15]



SOURCE: BI & LANAU (2011), IMF SURVEY: IMF Continues Push Toward Enhanced Global Financial Safety Net

The past 40 years of the financial sector paint a clear picture of recurring crises with short-term fixes. Nonetheless, policymakers appear surprised and largely unprepared whenever the next crisis occurs, and each reactive solution does little to deal with the underlying risks that may cause the next crisis. For example, building up higher equity buffers for banks was one of the key policy responses to the great financial crisis. However, financial policymakers did not consider how soon the next crisis might come along.

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[12] FSB (2020), *Holistic Review of the March Market Turmoil*, 17.11,2020, https://www.fsb.org/2020/11/holistic-review-of-the-march-market-turmoil/
[13] Magdalena Senn & Michael Peters (2021), *Next Generation Central Banking, The ECB's role in the social-ecological transformation, Conference Results 2021*, Transformative Responses, https://transformative-responses.org/wp-content/uploads/2021/04/ECB-conference-conclusions_full-report.pdf
[14] Ruchir Sharma (2021), *The billionaire boom: how the super-rich soaked up Covid cash*, Financial Times, 14.05.2021,https://www.ft.com/content/747a76dd-f018-4d0d-a9f3-4069bf2f5a93
[15] G. Bernardo, J. Ryan-Collins, R. Werner, T. Greenham (2013), *Strategic quantitative easing: stimulating investment to rebalance the economy*, New Economics Foundation, https://neweconomics.org/uploads/files/e79789e1e31f261e95_ypm6b49z7.pdf

The countercyclical buffer is supposed to increase bank equity when systemic risk is judged to be increasing, and therefore increase the banking system's resilience. [16] A smart idea in principle, but only if it is introduced swiftly, with the next crisis in mind. In Germany, the buffer was introduced in January 2016 but only came into effect in mid-2019 when the rate was raised from 0% to 0.25%. Unfortunately, the next crisis came around nine months later in March 2020. Little capital had been built up, but the countercyclical buffers were suspended due to the Covid Financial Crisis.

Building a resilient financial system is crucial for the social and ecological transformation. We need to implement strict regulation to stabilize financial markets and lessen the necessity for constant central bank intervention, while at the same time accounting for the systems' proclivity to crisis. [17]

The climate emergency

Though the pandemic might have shifted media attention, we remain in the middle of a climate and environmental emergency, this includes a wider crisis of biodiversity, forests, soil depletion, marine pollution and more. [18] We have seen a dramatic increase in global temperature: nineteen of the warmest years ever recorded occurred since 2000 and 2020 tied 2016 for the warmest year on record since 1880. [19]

According to the 2020 UNDRR report on the human cost of disasters, there is a clear link between the rising temperatures in the post-industrial period and the increased frequency of extreme weather events such as heatwaves, droughts, flooding, winter storms, hurricanes and wildfires. [20] The report shows a staggering level of both human and economic costs from the rise of extreme weather events. The economic losses incurred in the period 2000-2019 were almost twice the size of the previous period 1980-1999 (adjusted to inflation for US$ 2019)[21].

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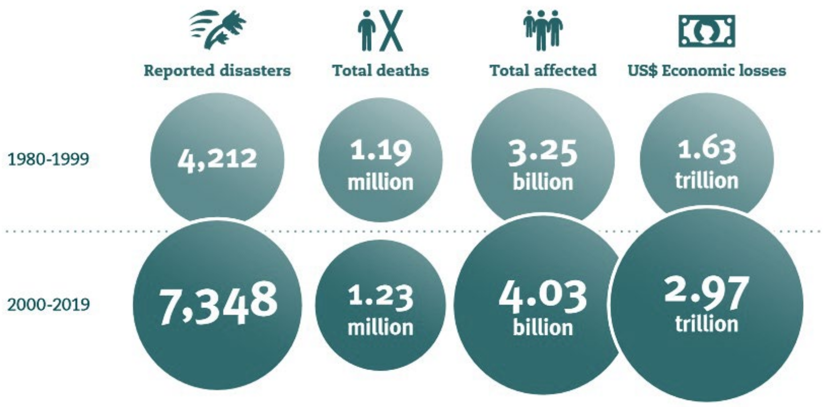
[16] European Systemic Risk Board (2021), *Countercyclical capital buffer*, https://www.esrb.europa.eu/national_policy/ccb/html/index.en.html
[17] Bernando et al. (2013), *Strategic quantitative easing: Stimulating investment to rebalance the economy*, New Economics Foundation, 01.07.2013, https://transformative-responses.org/wp-content/uploads/2021/04/ECB-conference-conclusions_full-report.pdf
[18] Laybourn-Langton et al. (2020), *We are not ready, Policymaking in the age of environmental breakdown*, Final Report, Institute for Public Policy Research, https://www.ippr.org/files/2020-06/we-are-not-ready-june20.pdf
[19] NASA (2021), *Global Temperature*, https://climate.nasa.gov/vital-signs/global-temperature/
[20] Mami Mizutori & Debarati Guha-Sapir (2020), *Human cost of disasters, An overview of the last 20 years*, 14.10.2020, https://www.undrr.org/sites/default/files/inline-files/Human%20Cost%20of%20Disasters%202000-2019%20FINAL.pdf
[21] Those losses can be due to both the rise of extreme weather events as such and an increase in assets at risk, for instance construction in areas of frequent flooding, which in turn are themselves more likely to suffer from extreme weather events.



1 For the purposes of this report, the term "disaster" will only be reserved for natural hazard-related disasters, excluding biological and technological disasters.
2 All economic figures are adjusted to inflation for US$ 2019.
3 Climate-related disasters include disasters categorized as meteorological, climatological, or hydrological.

SOURCE: MAMI MIZUTORI & DEBARATI GUHA-SAPIR (2020), Human cost of disasters, An overview of the last 20 years, UNDRR.

As our climate is becoming increasingly destabilized, the frequency and intensity of extreme weather events will likely only increase. The natural disasters often lead to economic crises, which in a previously published Transformative Responses paper we called "climate-induced crises".[22]

In that paper, by Bisaro, Rokitzki and Hofemeier, the authors explore six climate-induced scenarios of low probability but high impact that could trigger a political, economic or financial crisis in Europe. For example, a prolonged drought in Southern Europe leading to crop loss, decreased tourist arrivals, and conflict between water users; a flooding induced rapid drop in US coastal real estate prices inducing a global financial crisis. These are not precise predictions about what is going to happen, but the message is clear: climate-induced crises have significant humanitarian and economic costs. Their severity is increasing, and the costs will only rise if they are not addressed now. This is also reflected in the literature, even from institutions such as the Bank for International Settlements, in its "Green Swan" project.[23]

[22] Bisaro et al. (2020), *Climate impact induced crisis in Europe: An exploration of scenarios*, Berlin: Heinrich Böll Foundation / Finanzwende, https://transformative-responses.org/wp-content/uploads/2020/09/Climate-Impact-Induced-Crisis-in-Europe-Bisaro-Rokitzki-Hofemeier-2020.pdf
[23] Patrick Bolton et al. (2020), *The green swan, Central banking and financial stability in the age of climate change*, 01.2020, https://www.bis.org/publ/othp31.htm

The hitherto slow global response to the climate crisis makes it ever more credible that major political steps, to reduce its severity and adapt to it, will have to be enforced, even as we are feeling the consequences of the crisis itself.

While there has been an active process, through the UNFCCC, running on climate policy (this year sees the 26th Conference of Parties to the Convention, marking 27 years of engagement), the action remains painfully slow. Indeed, one could argue that, just as happened in terms of building up equity buffers only began just as a new financial crisis was beginning, each step in the climate process comes just as new evidence emerges that the crisis is even more critical than had been thought. And as we write, the impact of climate change is being felt very directly in the developed world through floods and heat domes, reinforcing the fact that this is not a crisis we are trying to stop happening in the future, but is a present and continuous crisis.

The bumpy nature of politics

The social and ecological transformation will require fighting many hard political battles. It will require long-term policy planning in a world where governments and the media focus on the short-term. It will require fighting vested interests that will likely have to forgo some profits and adjust their business models to a low carbon transition. In addition, in Europe it will require making compromises across a very heterogeneous group of countries. In short: there are many reasons why it is difficult to implement consistent, long-term, transformational policies.

If the frequency of systemic crises is increasing, the road ahead will be even bumpier. We argue that the response to systemic crises plays a particularly crucial role for the transformation, because crises provide opportunities to overcome some political challenges for major policy shifts. Therefore, analysing how future crises could affect the transformation and preparing policy responses should be an integral part of any transformation agenda. In the following section, we will explore why it has been so difficult in the past to use crisis-response policies for progress in the social and ecological transformation.

The European Union and a joint sense of crisis

Working towards the transformation in Europe means addressing these issues within the European Union. Covid-19 and the Next Gen EU program shows us that there is a path for joint European crisis response, but that it is challenging. Policy discussions include either the 27 EU member states or at least the 17 Eurozone countries.

The Next Gen EU program was quite astonishing, in the sense that no one had expected anything like this pre-crisis. It took a long time to agree, and in economic terms it is still small, but the fact that this is a joint EU approach is very promising. In our opinion, this was only feasible because the pandemic created a joint understanding of mutual crisis within the EU. While the virus likely started spreading in Italy, which together with Spain were countries that suffered, the most early on, it was clear from the start that what happened in Italy or Spain might very well happen in Germany, France or Finland too. This joint understanding of being stuck in this together, and not being able to scapegoat anyone for the appearance of such a virus, was crucial to joint policymaking.

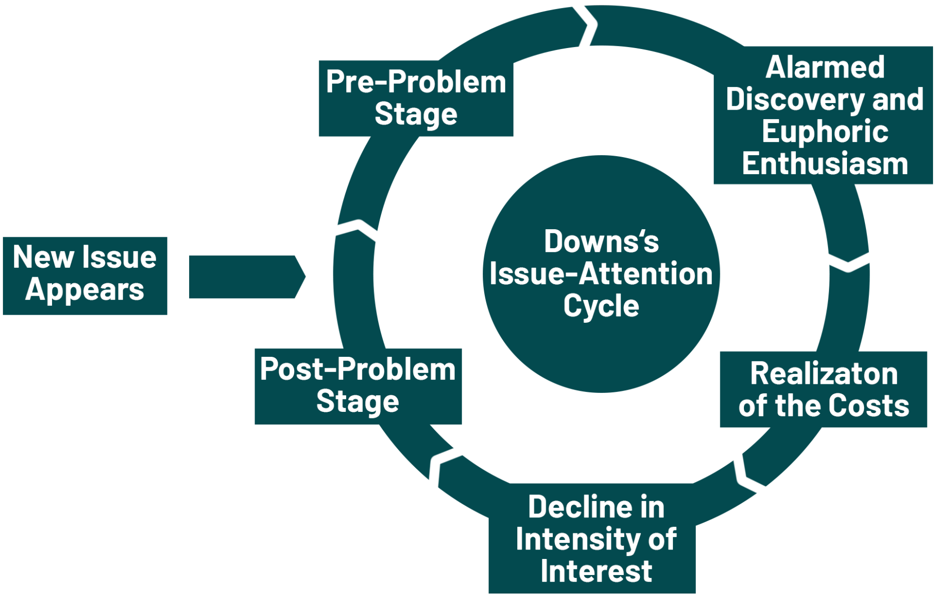
During the great financial crisis, and the ensuing Eurocrisis, it was a different story due to the asymmetrical effects of the crisis. The effects of the financial crisis in 2008 were felt directly in countries with highly integrated financial sectors such as the UK, Germany, France and the Netherlands, where the looming collapse of large financial institutions led to massive economic uncertainty and government bail-outs. In contrast, the sovereign debt crisis in Ireland, Portugal, Cyprus and Greece only started in 2010 and spread over the next couple of years. The Spanish government was not under severe financial pressure until 2012. In the meantime, countries like Germany, the Netherlands, UK and France had started recovering. Contrary to the pandemic, there was no joint sense of crisis, but each country was left to fight for themselves. This was exacerbated by a narrative that the countries at risk were in some way to blame because of their profligacy or bad management.

The European refugee crisis of 2015 provides another sad example. The root causes of this were wars and armed conflicts in Syria, Afghanistan and Libya among others, sounding a clear warning for migration patterns. Yet, the EU could not react pre-emptively. The Dublin regulation was never fit for crises. It is a product of national interests, exerting pressure on the countries exposed to migrational patterns, while safeguarding the others. Any attempts of reforming the Dublin system failed due to conflict in the European Council.

Refugees reached Southern European countries long before their northern neighbours, yet the EU remained without a joint response. Indeed, the whole ethos of the Dublin Regulation is to put the onus on the individual countries rather than collectively. It was only the arrival of large groups of migrants in Austria and Germany in the summer of 2015, which led Angela Merkel to try and negotiate a deal on a European level. Again, a crisis in Southern Europe did not create a joint sense of crisis, nor draw enough attention to foster an EU wide approach.

Public attention comes in cycles

Another issue with implementing a long-term transformative agenda focused on social and ecological change is the media's, and more generally the public's, attention to relevant issues. Things tend to be done quicker in politics when some form of public pressure persists, be it a looming financial crisis, media outcry or civil society unrest. Therefore, less media attention makes it harder to justify radical status quo reforms.



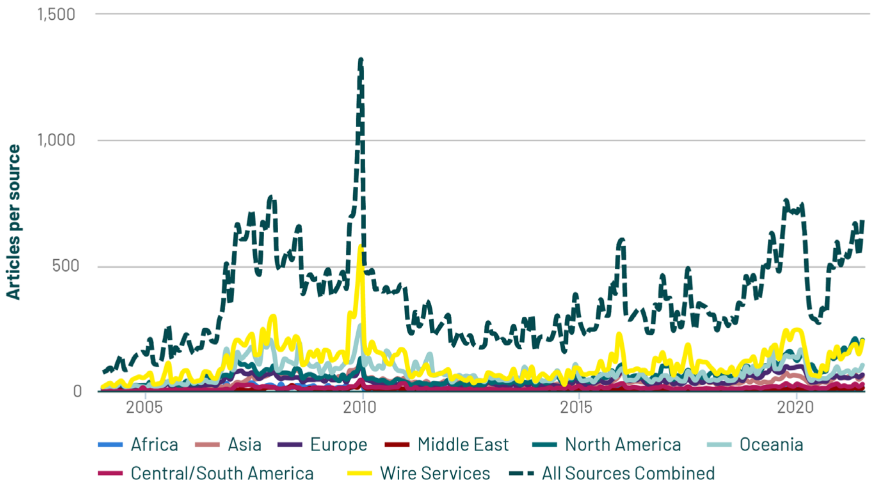
This is something that was first formally argued by Anthony Downs back in 1972 who framed what he called the "issue attention cycle".[24] Downs uses the public attitude towards the environment to make his point. In short, he argues, that there is a pre-problem phase where little except for experts know about the issue at hand. In the next phase of "alarmed discovery", the public starts understanding that a major problem exists, coverage rises together with enthusiasm for fighting the problem. Then, realization of the costs and necessary sacrifices kick in, which eventually lead to a decline in attention. Finally, the issue moves to a "post problem stage", where the topic may re-enter an attention cycle.

While the theory was developed in the early 70s, it still seems to resonate with our current situation. The Media and Climate Change Observatory at the University of Boulder in Colorado

[24] Anthony Downs (1972), *Up and Down with Ecology: the "Issue-Attention Cycle"*, The Public Interest, No. 28 (Spring, 1972), pp. 38-50. Copyright 1972 by National Affairs Inc.

collects data on the newspaper coverage of climate change and global warming.[25] While these data are not perfect, they do convey a clear pattern. There are media attention cycles for climate change, especially around events such as the Copenhagen summit in Dec 2009 or the Paris Agreement in Dec 2015. The topic was on the rise since 2018, in part due to the global *Fridays For Future* movement, and it looks like it was about to consolidate at a higher attention level in early 2020 until the pandemic quickly overtook the media attention.

2004-2021 World Newspaper Coverage of Climate Change or Global Warming



SOURCE: MeCCO (2021), 2004-2021 World Newspaper Coverage of Climate Change or Global Warming, https://sciencepolicy.colorado.edu/icecaps/research/media_coverage/world/index.html

Public pressure is necessary for major public policy changes. The issue attention cycle strengthens our argument. There are only short timespans where the media is focused on specific issues and where their support could allow initiatives that are more radical. Capitalizing on these during crisis responses is paramount. Once the crisis has passed, or moved to a more stable state, media attention will shift away. In addition, once attention wanes, vested interests have an easier ride. The Dodd-Frank act, which came into action two years after the great financial crisis, illustrates this nicely. It entailed a strong regulatory framework, but large parts of the well-intended legislation were eventually diluted, due to lobby groups continuously influencing the implementation process. As a result, shadow banks (or "non-bank financial intermediaries" as they are now called) remain almost unregulated post-2008, although they were arguably one of the key causes of the financial crisis.

[25] MeCCO (2021), *2004-2021 World Newspaper Coverage of Climate Change or Global Warming*, https://sciencepolicy.colorado.edu/icecaps/research/media_coverage/world/index.html

Mobilising (public) resources

Working towards net-zero carbon emissions, while also keeping people in well-paid employment, will require a lot of investment, both public and private. Ideally, there would be some form of long-term planning in place, working back from boundaries - such as carbon emission goals or the 1.5° C goal - and estimating investment needs, and then mobilizing public and private resources for this goal. There has to be some form of continuity of planning and investment to achieve this long-term goal.

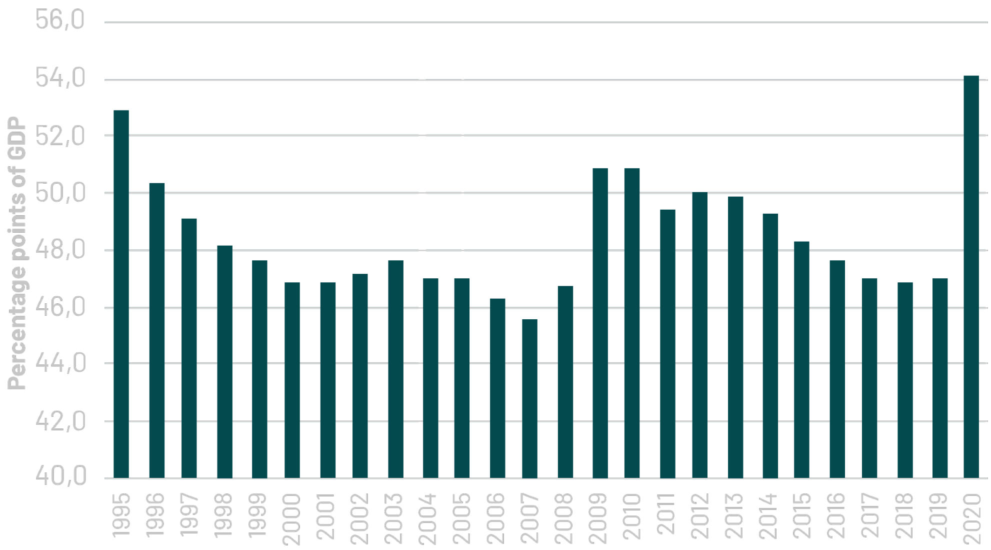
However, continuity seems precisely one of the obstacles when it comes to government spending. Looking back on government spending in the Eurozone in the past 25 years, we see a pattern of upswings and downswings: austerity, followed by expansive fiscal policy, followed by austerity, and so on. The graph below shows government spending in relation to GDP. From a starting point of 53% in 1995, a decrease in public spending sets in - likely due to the Maastricht criteria - bottoming down at 45.6% in 2007. The trend reversed in 2009 where government spending rose to 51%, mostly due to the expansive fiscal policies used to counter the great financial crisis. However, the trend again reversed through the prevailing austerity paradigm, falling to 47% in 2019. Then a one-off event like the Covid-19 pandemic completely reverses the trend, rising spending levels to the highest since 1995.

These ups and downs are not - as one might think - the result of some Keynesian economic policy that saves in good times and stimulates the economy with credit financing in bad times. Rather, it comes from a hegemonic conservative school of thought that wants to reduce government spending through tax cuts and deficit rules but is willing to put its non-interventionist paradigm aside in times of crisis to prevent a collapse of the financial system, of the euro currency area or indeed of large parts of the real economy (as happened during the pandemic). The ups and downs were thus purely crisis-driven and did not follow any kind of long-term economic policy logic.

This entails the lesson that, even if working towards the social and ecological transformation does become the majority political view, this long-term strategy can, and almost certainly will, be systematically disturbed by crises. The bumpiness of public spending will make long-term policy implementation more difficult. This is a massive problem and again emphasizes how much crisis response policy matters. For example, a massive public infrastructure plan such as a railway investment plan or expanding the fibre optic network might make economic sense, but will not always be politically acceptable. However, if proposed at the right time, say as part of a crisis response policy, funding could be possible, in a way that it would have been impossible during a period when the austerity paradigm ruled.

We believe that more stable spending patterns and more investment is necessary to increase our system's resilience. This should be done, and built into spending plans in good times and in bad. However, we recognise that, during the lulls when the economy is not obviously in a crisis, inertia and vested interests can make it hard for politicians to deliver the totality of investment needed. By contrast, there may be greater political space to bring forward additional investment when politicians are responding to a systemic crisis, and are more willing to overcome inertia and vested interests. Hence, rather than complain about political short-termism, a more holistic strategy might be to advocate a dual strategy, that increases investment in good times, with surges of investment on hand to use when the (inevitable) crisis happens, so that we actively use the fact of crises being built into our system, to help transform it, socially and ecologically.

Euro Area Government Spending in % of GDP (Eurostat[26])



Policy responses matter: Covid-19

The reactive policies that are passed in response to crises have not fostered the social and ecological transformation we need. In 2008, the German stimulus package included the so-called *Abwrackprämie* (car-scrapping scheme), which incentivized buying new cars if the old ones were turned in. While successful in stimulating the economy, its ecological impact was not

[26] Eurostat (2021), *Government revenue, expenditure and main aggregates*, https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_10a_main&lang=en

considered, and the new cars were almost exclusively combustion engine vehicles.[27] Experience shows that this happens also with policy responses to the climate crisis. While there are many reasons for the *gilets jaunes* protests that began in France in late 2018, most notably welfare and broader taxation reform, the increases in fuel tax certainly catalysed the protests. The link to higher diesel prices in particular was reinforced by the adoption of the *gilets jaunes* (high visibility jackets worn by drivers) as the symbol of the movement.

While we are still in the middle of a global pandemic, but we will try to draw preliminary conclusions on how policies adopted in response to it have affected the social and ecological transformation.[28] In March 2020 the Fed, ECB, Bank of England and other central banks answered the economic uncertainty produced by the pandemic with expansive monetary policy. This met an immediate need for liquidity, but with little consideration for wider impacts. Borrowing costs for governments and companies were kept low, which in turn supported job markets; but it also led to a dramatic rally of stock markets.[29] Thus, although unemployment remains high in most OECD countries, and furlough schemes remain in place, financial markets have reached unprecedented highs.[30] Which in turn has created the most billionaires ever. In the past 12 months (April 2020-2021) the total wealth of billionaires worldwide rose by $5tn to $13tn, the most dramatic surge ever registered.[31]

At the same time, the EU waived its competition clauses allowing governments to directly support the private sector, for example through loan guarantees. While this supported the companies and their employees, it was also an indirect subsidy for the financial sector. For example, in Germany the sector received fees for facilitating those loans and, more importantly, encountered a low level of non-performing loans due to few insolvencies. Some countries were stricter than others when it comes to state aid. The Netherlands prohibited companies from paying out dividends if they received government aid (including furlough schemes).[32] Other countries like France, Germany and the UK did not.

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[27] Jennifer Rankin (2009), *Car-scrapping schemes under fire, EU's environment agency says schemes will not promote cleaner vehicles*, 27.05.2009, https://www.politico.eu/article/car-scrapping-schemes-under-fire/
[28] We are viewing economic lockdown measures as a given and will not debate these here. For more detail on why our system produces pandemics in the first place see: Transformative Responses (2021), *Beyond crisis mode: building a resilient society*, https://transformative-responses.org/the-project/beyond-crisis-mode-building-a-resilient-society/
[29] BIS (2020), *Markets rise despite subdued economic recovery*, BIS Quarterly Review, 09.2020, https://www.bis.org/publ/qtrpdf/r_qt2009a.pdf
[30] Elizabeth Dilts Marshall (2021), *Global shares rise to a new high on US equity markets*, 29.06.2021, https://www.reuters.com/world/middle-east/global-markets-wrapup-6-pix-graphics-2021-06-28/
[31] Ruchir Sharma (2021), *The billionaire boom: how the super-rich soaked up Covid cash*, Financial Times, 14.05.2021,https://www.ft.com/content/747a76dd-f018-4d0d-a9f3-4069bf2f5a93
[32] Ius Laboris (2020), *The Netherlands extends its coronavirus job retention scheme: how does it work?* 04.06.2020 https://iuslaboris.com/insights/the-netherlands-extends-its-coronavirus-job-retention-scheme-how-does-it-work/

Furthermore, some companies required so much aid that governments are now temporary owners. Again, some countries dealt with this better than others, for example by introducing environmental conditions. France for example required Air France-KLM to ban short-distance flights, while there were no comparable obligations for Lufthansa in Germany.

While the nature of the economic lockdown decreased CO2 emissions, this was temporary. The drop in emissions in 2020, which one estimate suggests was the equivalent of taking 50 million cars off the road for a year,[33] is significant in itself, but will not seriously impact total concentration of greenhouse gases in the atmosphere, and will almost certainly be offset by a bounce back this year and next.

The Next Generation EU program was crucial for European solidarity and focuses on the right topics. However, it is likely too small, especially in comparison to the stimulus packages passed in the US and China. The actual spending programme is slower, with disbursement yet to begin at the time of writing, and the delay may cause a reaction against green spending, if the delayed timing is seen to have been caused by its environmental goals. The programme as a whole, including the plans produced by member states to spend it, misses significant opportunities to use spending transformatively.[34]

The one striking example during the current crisis of a global, systemic response to existing social and economic problems is the global corporate minimum tax, such as the G7 proposed in June 2021. This built on years of work at OECD and elsewhere - a good example of pulling out pre-existing options to implement during a crisis. However, it remains to be seen how transformative this proposal will turn out to be. There are already exceptions being negotiated at the time of writing.[35]

In short, it is still too soon to assess the impacts of the Covid crisis response policies on the possibility of a social and ecological transformation. However, it appears clear that inequality is increasing and too little has been done to drive the green transition.

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[33] University of East Anglia & University of Exeter (2020), *COVID lockdown causes record drop in carbon emissions for 2020*, https://earth.stanford.edu/news/covid-lockdown-causes-record-drop-carbon-emissions-2020#gs.3jovmd
[34] See for example this report by ZOE and New Economics Foundation: Dirth et al. (2021), *A future-fit recovery?*, 09.06.2021 https://zoe-institut.de/en/publication/a-future-fit-recovery/
[35] Agyemang et al. (2021), *UK presses for City of London carve-out from G7 global tax plan*, 08.06.2021, https://www.ft.com/content/4ed18830-f561-4291-8db5-c3c1fa86c1b8

Looking forward

In 2008, we were worried that our financial system was about to collapse. In 2010-2012, we were worried the Eurozone could fall apart. During the pandemic, we were worried about our health and safety. And all the time, the climate emergency looms large over our heads. The frequency of systemic crises has increased. The short-term policies of the last few decades have not led to a proper realisation in the political system that we are now in a phase of systemic crises. There will be no return to normality, as attractive a political message as that may be; the reality is that we have to buckle up and prepare for the new normal of frequent systemic crises. When developing policy proposals, implementation strategies and longer-term strategies, we cannot assume that there will ever be a time we can say we have "returned to normality".

On the contrary, we argue that we must prepare for the future with "oven ready" crisis-response plans that are expressly designed to bring about transformative change. These will have to be tweaked in the light of events, since there is no perfect foresight, but having proposals in our back pockets will allow us to use the historic political opportunities of such crises to mobilize public spending and change public policy.

Political party working groups do not usually work this way. Public discussions on "what do you intend to do if elected?" do not usually happen this way. Up to now, party programs are based on an optimistic scenario of long-term normality and stability. When a crisis comes, the frantic search for short-term solutions begins. These solutions will be entrenched in old thinking, and hardly intended to bring transformational progress. Conservative crisis managers would have their moment.

For the bumpy road, however, we need politicians who think and plan for such crisis scenarios and then become transformation managers during the crisis period.

Transformative policies will, however, only be possible, if all actors accept that we are not returning to normal. Policies to overcome the bumpiness must not ignore bumpiness as a challenge to political action itself. Rather than imagining a return to normality, we need to be acutely aware of the inevitability of the next crisis. This should strongly influence the way we think about transformative change. We need to embrace the bumpiness as the nature of our system to foster the change in society that will support a change for the better in our environment and climate.