Is the world about to adopt a new economic mindset?

Despite massive government support, no recession since 1990 has shown steeper or faster downgrades in growth projections. The World Bank estimates a 5.2 percent contraction in global GDP in 2020.

In just a couple of months the world has dramatically changed and we are expected to feel the consequences for a very long time. For starters, just consider how lost work and schooling is causing an erosion of human capital. But the world will see long lasting effects play out in many ways:

- Long term productivity loss
- Loss of trade
- Decline in tourism
- Pressure on health care systems
- Fragmentation of global trade and supply linkages
- Mounting debts
- Decreased capital flow
- Decline in long term investments

Not to mention the unprecedented collapse in oil demand and dropping oil prices (on which we published a separate article).

Shaping resilient economies

There is no way around it: change is here. It got delivered to our door steps in the shape of a vigilant virus. Economic downfall and the loss of lives is not to be taken lightly. However, the human species is resilient. We will get through this. It is up to us just how we get through it. Real opportunity is here to reshape our economic structures to become more inclusive and sustainable.

"Setting the stage for a lasting recovery requires a new economic mindset."
measures to slow the spread of the pandemic. And economic actions are needed to alleviate some of the worst economic damages.

However, over the longer term, enabling a resilient and robust economy demands national and global reform for the fundamental drivers of economic growth. What it boils down to: setting the stage for lasting recovery requires systemic change as a foundation for a new economic mindset.

Systemic change to expand economic imagination
There is extensive debate amongst economists, sociologists and environmentalists on that subject: how can economies become more resilient? Can we reshape the world to a more sustainable, inclusive, and fair place for all? Some of the lines of thought evolve around:

- Being able to scale down production without loss of lives and high social costs
- Shifting healthcare services from private sector back to state-owned
- More focus on self-reliance and less extreme globalisation
- Reshaping to less-fossil based economies

In an interesting article on BBC Future, Simon Mair (Research Fellow in Ecological Economics at the University of Surrey) says: “One of the things the Covid-19 crisis could be doing, is expanding that economic imagination. As governments and citizens take steps that three months ago seemed impossible, our ideas about how the world works could change rapidly. The upside of this is the possibility that we build a more humane system that leaves us more resilient in the face of future pandemics and other impending crises like climate change.”

Joseph E. Stiglitz (professor of economics at Columbia University) shares his point of view in an op-ed on Foreign Policy: “The economic system we construct after this pandemic will have to be less shortsighted, more resilient, and more sensitive to the fact that economic globalization has far outpaced political globalisation. So long as this is the case, countries will have to strive for a better balance between taking advantage of globalisation and a necessary degree of self-reliance.”

Reshaping the economy
The current massive global financial support measures could boost that new mindset. Yes, a lot of funds are now allocated to go to short-term local business support, short-term investments and economic aid. However, a more long-term focus is emerging.

Take the EU for instance, it will create a 1.5 trillion fund to support the EU countries. A large part of this funding consists of healthcare and medicine related support. At the same time substantial sums are reserved for investment funds that could very well trickle down to sustainable development programs:
Fund for Strategic Investment (EFSI) – € 1 billion
European Globalisation Adjustment Fund (EGF) - € 197 million
Remaining EU Structural Funds 2014-2020 - € 28 billion

“The Covid-19 crisis could be expanding our economic imagination.”

Set against the background of the European Green Deal these investments and funds offer an historic opportunity to create the much needed change. The Green Deal is about revising relevant laws and policies in combination with a money-backed growth strategy. The focus is on reducing net CO₂ emissions to zero in 2050, economic growth without depleting natural resources and humanitarian support for all regions.

Opportunities for change, and for cleantech start-ups
To create real change, we need more than policies and funds. We need businesses to step up and lead the charge. We need entrepreneurs that focus on people and planet as requirements for profit. Among other things, the EU Green Deal includes potential carbon tariffs for countries and a circular economy action plan. It provides for a review and possible revision of all relevant climate-related policy instruments, including the Emissions Trading System. There is a Farm to Fork strategy along with focus on storing carbon in the soil, improved nutrient management and reducing emissions. The Energy Taxation Directive will be revised, looking closely at fossil fuel subsidies and tax exemptions (aviation, shipping) and there is a sustainable and smart mobility strategy and an EU forest strategy.

Taking all this into account, tremendous opportunities for cleantech start-ups emerge. Essentially, all these policies aim to change the game of traditional capitalism into a greener, fossil-free and near-circular economy. Existing companies will need to put out efforts to comply with these new rules. Some companies might not be able to adjust, giving way to newer, more innovative companies. Innovation will be crucial to survive, and will be supported by new policies, funding programs and revised laws.

Businesses that understand this new world that is emerging and that are able to create products, services and solutions to serve a wider purpose to society – those are the ones that will thrive.

ClimateLaunchpad. Fixing climate change, one startup at a time.

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About ClimateLaunchpad
ClimateLaunchpad is the global green business ideas competition. Its mission is to address the negative impacts of climate change by ways of innovation, invention and entrepreneurship. A green future demands thousands of innovations challenging the current business models. The competition supports aspiring and promising cleantech entrepreneurs with training, coaching and networking opportunities.

ClimateLaunchpad operates on a global scale, currently in over 50 countries.

ClimateLaunchpad was established in 2014 and is part of the Entrepreneurship offerings of EIT Climate-KIC.

About EIT Climate-KIC
Climate-KIC is one of the Knowledge and Innovation Communities (KICs) established in 2010 by the European Institute of Innovation and Technology (EIT), the EU body that creates sustainable economic growth in Europe, tackling the global challenges of this time.

About the European Institute of Innovation and Technology (EIT)
The EIT is an independent body of the European Union set up in 2008 to spur innovation and entrepreneurship across Europe to overcome some of its greatest challenges. It brings together leading higher education institutions, research labs and companies to form dynamic cross-border partnerships – Knowledge and Innovation Communities, KICs – that develop innovative products and services, start new companies, and train a new generation of entrepreneurs.

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