

## **The Corona Crisis Must Not Be Paid By Fueling the Climate Crisis**

*The corona crisis must not be an alibi for non-compliance with climate protection goals. Rather, long-term government stimulus packages must push the green transformation.*

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Economists largely agree that Europe needs a reconstruction program after the Corona crisis. However, there is a controversy regarding the scope of such a program and how it should be financed - and it is mentioned only marginally if at all, in the course of reconstruction, the necessary climate-friendly transformation should be promoted.

In this article, we want to elaborate on the connection between reconstruction and climate protection. It is particularly important to avoid the mistakes made to solve previous financial market and sovereign debt crisis. Two lessons should be strictly followed: First, the corona crisis must not be an alibi for non-compliance with climate protection goals. Long-term government aid to boost the economy must push the green transformation, not hinder it. Secondly, politicians must keep an eye on the euro area as a whole.

We will elaborate on what the implementation of these two central lessons means in detail.

### **Corona expansion program must push the transition to the green economic system**

The economic forecasters largely agree that the pandemic will hit the global economy hard and cause a recession of historic proportions. The Corona crisis hit many Euro area member States quite unprepared. The health system in particular is on the verge of collapse in many places. Large rounds of cost savings after the privatization of the 1990s have left health systems with no reserves to cushion shocks. The fiscal austerity policy after the 2008-2009 financial crisis has also exhausted publicly funded systems, particularly in Italy and Spain.

One thing is clear: science and research and health and social services must be strengthened so that we can better manage comparable crises. But it should also be clear that the rescue parachutes have to be opened in such a way that they encourage the

<sup>1</sup>conversion of the economy to future-oriented technologies, in particular energy technologies.

What does that specifically mean?

**1. Investments should promote the conversion of the energy supply towards renewable energies and energy saving technologies.** State funding should be supplied to companies switching from using fossil fuels to climate-friendly energy sources and technologies. The possible investments in companies financed or subsidized by State Funds should be based on a strict criteria based on systemic relevance and climate protection. Scrapping premiums for oil heating systems should be coupled with programs for climate-friendly building energy, for example the use of heat pumps or the use of renewable energy. Programs for green hospitals <sup>3</sup>should be strengthened, which aim to ensure that energy supply in hospitals is efficient and climate-friendly, which also include waste prevention and recycling.

**2. COVID-19 has brought almost all mobility to a standstill. We should use the "restart" after the pandemic to permanently improve public transport.** Mobility based on fossil energies must be reduced and converted to renewable energies. In order to meet the Paris climate goals, we should no longer need vehicles with fossil combustion engines. If they are bought today, they produce climate-hazardous emissions, nitrogen oxide and fine dust for over 15 years.

The results of the scrapping premium program to replace cars in 2009 are devastating. At five billion euros, it was not only extremely expensive but led to pull-in and take-away effects. The economic impact was limited, as the majority of German car makers sold the vehicles abroad. And it also proved to be socially unfair: two million car buyers received 2,500 euros, financed by 27 million taxpayers. A third of the population in Germany cannot afford a car. The scrapping bonus was and is the symbol of social injustice paired with nonsense climate policy.

State aid should benefit rail and local public transport, subject to the condition that green electricity is used and that electric vehicles are increasingly used. It is also imperative that shipping, aviation and heavy goods traffic are switched to climate-friendly drives. Short-haul flights should be completely abolished and high-speed train routes should be expanded instead. Investments in rail infrastructure should be at least tripled. <sup>2</sup>

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<sup>2</sup> <https://makronom.de/die-corona-krise-darf-nicht-mit-der-befeuerung-der-klimakrise-bezahlt-werden-35794>

<sup>3</sup> <https://www.aerzteblatt.de/archiv/212983/Green-Hospitals-Klimaschutz-im-Krankenhaus>

**3. All economic sectors must give priority to resource conservation and climate protection.** Winter and summer tourism economies must solve their deficits in climate protection. Agriculture can also be climate neutral. There are a number of sensible detailed measures that must be urgently requested in the course of granting funding.

**4. Critical euro countries need to be supported in the implementation of climate-friendly policies.** The demand to address the Corona crisis through a European solidarity fund or a similar construction has been debated since the beginning of the crisis. Building on previous proposals for Euro bonds, the solidarity fund should be financed through corona bonds. This demand comes in particular from the EU countries, which were badly affected by the financial crisis and therefore already have a high level of public debt. Their fiscal space is too small for the necessary extensive expansion programs - and the temptation to delay a climate-friendly restructuring of the economies is greater.

The EU community has already released a number of measures to support these countries, but these are too short-sighted. The discussion about alternatives and refining these measures has now flared up among economists. The options discussed range from direct financing of the States by the European Central Bank (ECB) to the issue of joint bonds ("corona bonds" or "European recovery bonds"). In our view, there are a number of reasons for joint bond financing.

First, the ECB can directly buy the joint bonds. Some of these bonds could explicitly be issued as joint green bonds, and the bonds proceeds must be used for climate-friendly investments only. The States' goal of pushing economic recovery after the Pandemic crisis is overcome would thus be effectively linked to climate protection. At the same time, government bonds would be de-risked. The EU area and individual EU countries would suffer less from the flight of capital, as a result of the expected increase in government debt and a debt crisis risk - the common bonds would not be exposed to the risk of speculative attacks. They would no longer be largely held by foreign investors, but by the central bank.

Such a fiscal policy has been pursued in Japan for more than a decade. The risk of capital flight has been reduced enormously. The Japanese Central Bank buys the bonds, bringing the risk premiums (and interest spreads) under control. A number of internationally known economists regard this method of risk reduction as a viable option for Italy too, if it is carried through by the ECB.

The mistakes of the sovereign debt crisis of 2010-15 should under no circumstances be repeated. Once the Corona crisis has been overcome, a forced austerity policy must not occur again. With individual borrowing by countries, the asymmetry in the debt levels of the Euro countries – and the sovereign default risk - will continue to increase. You do not have to be a prophet to predict that, despite all the current expressions of solidarity, the less indebted countries, ex post, will be tempted to push the "indebted countries" again to the "heavily indebted countries" group. It is this time inconsistency that is behind the mistrust of the European finance ministers' proposals for individual countries' borrowing. It can

only be overcome in the long term by jointly borrowing to deal with the Corona crisis.

After the short-term European rescue programs against the pandemic, a long-term development and transformation program towards a European green economic system must come. Both short-term pandemic and long-term green transformation programs should be funded with joint bonds.

## **Conclusion**

In order to overcome the crisis, the governments need directing incentives and a willingness to invest. That was already the case in the 2008/2009 financial crisis and it also applies to the Corona crisis. Whether through tax reduction, shorter work week (Kurzarbeit) or interest-free loans, the government support can reduce economic risks in the long term and open up economic opportunities. Even in the climate crisis, investments and State support are necessary and sensible for the recovery and necessary restructuring of the economy and society. That is why it is appropriate to think now - in the midst of the current coronavirus crisis - how we can prevent or at least mitigate the impending climate crisis. Otherwise we will make the mistake of 2009 a second time: in the previous financial crisis, stimulus programs were launched and grants were given but promoted the continued use of technologies that were already out of date and harmful to the climate. We received the bill ten years later when the climate targets could not be achieved. We are now confronted with a massive nitrogen oxide problem in the cities and CO<sub>2</sub> emissions.

It would be smart not to press the "reset" button again this time when the pandemic subsides and companies start up again. Climate protection cannot just go on as if nothing had happened. Otherwise we will pay for the rescue from the coronavirus crisis by fueling the climate crisis.