Inquiring Minds Topic- - 22 January 2021

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Why the Covid-19 recovery needs a proactive public sector

[Discussion questions are on page 4.]

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The global economy has been thrown a curve-ball in the shape of Covid-19. The crisis has shown up systemic shortcomings, both in the capacity of states to address the enormous public health emergency; and in the resilience of international industry to immediate and sustained disruption.

It has also de-blinkered our eyes to the inequality of modern living. Around 22 per cent of the UK population are experiencing the pandemic from a position of poverty. Our most disadvantaged pupils, and their teachers, are coping with a "digital divide"; 700,000 children live in homes without a laptop, desktop or tablet computer.

Racial inequality has been thrown into sharp relief. These are interlinked problems and come from long-term economic dysfunction – from the UK's characteristics of finance-led and debt-led growth, compounded by austerity and under-funding.

But, more than this, the pandemic shines a light on how the proactive role of the state has been shifted from its purpose. Since the 1980s, governments have been steered to take a back seat on the economy, intervening only for the purpose of fixing market failures—and always worrying that government's fix might be even worse.

This revision of the value creation capacity of the public sector narrows its potential to a dangerous degree. It assumes that only business can create value, with the public sector at best de-risking some of the

process. Buying into this has sliced out one of the vital organs of productive and innovation capacity: the entrepreneurial state.

Indeed, it was a risk-taking, investor-of-first resort, innovative entrepreneurial state that got us all the technologies in our smart phones. From the internet to Google's search function algorithm, to touchscreens, GPS, and voice recognition, to Elon Musk's TESLA, seed investment came from public sector organisations like the Defense Advanced Research Projects Agency and National Science Foundations in the United States.

The key is not the state on its own, but public-private partnerships where the public part is ambitious – co-creating and shaping markets, not just fixing them.

Markets will not find the direction of economic growth in a green, sustainable or equitable way by themselves: only when there is a stable and consistent direction for investment will regulation and innovation converge. And there is still a huge investment gap. Low-carbon investment is $480bn short of the sum needed per year to meet the 1.5°C temperature increase target laid down in the Paris Agreement, and biodiversity investments need to increase by up to eight times in order to meet internationally agreed targets.

Mission-oriented innovation can provide a valuable framework for market co-creating. Missions see the public sector set an ambitious, concrete, and time-bound target, which designs in cross-sectoral, bottom-up innovation. Examples include reducing the amount of plastic entering the marine environment by 90 per cent by 2030 or creating 100 carbon-neutral cities in Europe.

Post-corona virus renewal policy-making requires such clarity and courage, mobilizing investment in the business sector, identifying areas to build resilience, and supporting vulnerable workers to acquire new skills. This is a concept we have written about extensively at the Institute for Innovation and Public Purpose, and will form the shape of a forthcoming book: *Mission Economics*. Missions have been taken up by

the European Commission Research, Science and Innovation's Horizon Europe program, among others, and, we argue, should set the direction for Europe's €750bn green recovery. They set the direction of travel towards tackling large societal challenges, not just channeling funding into economic sectors, or pet projects.

This is important because investment is not neutral. Our research shows that who invests, how much they invest, and how they invest, heavily impacts the direction of investment made. Imposing conditions on bailouts – as many governments are doing – helps to steer financial resources strategically. Conditions can ensure that resources are reinvested productively instead of being captured by narrow or speculative interests.

Covid-19 conditionalities are a once-in-a-generation opportunity to support missions and shape markets – whether these are directing the market towards a green pathway, towards dissolving inequality, or in defense of workers' rights. In France, the bailouts for both Renault and Air France were conditional on carbon reduction commitments, and in both France and Denmark, state aid is denied to any company domiciled in an EU-designated tax haven and large companies receiving aid are being barred from paying dividends or buying back their own shares until 2021. Similarly, in the US, Senator Elizabeth Warren has called for strict bailout conditions, including higher minimum wages, worker representation on corporate boards, and enduring restrictions on dividends, stock buybacks, and executive bonuses. And in the United Kingdom, the Bank of England has pressed for a temporary moratorium on dividends and buybacks.

When done right, conditionalities can align corporate behavior with the needs of society, ensuring sustainable growth and a better relationship between workers and firms. Indeed, the "deal" part of any post-pandemic social contract, must be worker-focused. Labor markets have seen immense displacement. The burgeoning gig economy and self-employed workers have, broadly, been overlooked by government support.

The Just Transition approach that has been developed in the climate change sector must be implemented across multiple brown sectors, transforming them into sustainable green job creators. A green jobs guarantee can underpin this direction. Unions should be brought to the table for a green economic renewal that is not handed down from above, but co-created. A sustainable, climate-resilient economic renewal requires bold policy-making and investment that brings public purpose, and stakeholders, not shareholders, to the center of decision-making.

I have edited the article for brevity. I recommend clicking on the hyperlinks to help explain some of the esoteric terms, such as entrepreneurial state.

Questions for discussion:

1. Do you agree that the Covid-19 Pandemic has exposed weaknesses in the US ability to respond to emergencies competently and quickly?
2. What are some of those weaknesses, for example supply chains of medical equipment; neglected public health system, lack of federal leadership etc?
3. Do you agree that the pandemic has exposed economic inequities, especially for essential workers who are predominantly female and minority?
4. Post-pandemic, can we rebuild better with economic justice and, at the same time, facing squarely the need to transition to a greener economy?
5. FDR put America back to work by building a stronger and fairer country. He led by his optimism and ability to explain simply and persuasively, overcoming staunch opposition to the New Deal. Can President-elect Biden do the same for Build Back Better or the much-maligned Green New Deal?
6. Or, post-pandemic, should we just get back to work as usual?