

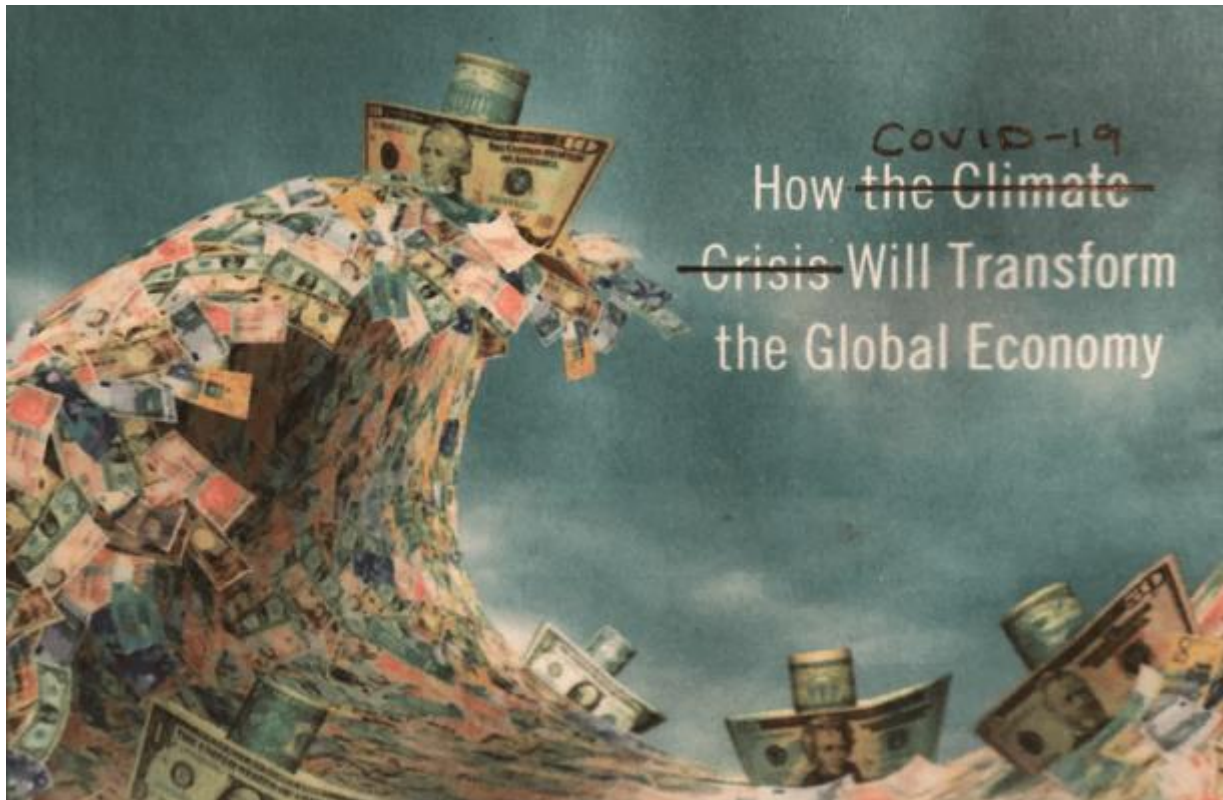


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The Great Disruption is underway with COVID-19

Désirée Crommelin, 02/04/2020



THE GREAT DISRUPTION IS UNDERWAY. In zijn column geeft Paul Gilding, auteur van het boek *The Great Disruption* zijn visie op de gevolgen voor het klimaat en economie van de coronacrisis wereldwijd . Hij past daarvoor de ondertitel van zijn boek aan tot *How COVID-19 will transform the global economy!*

“What is certain is that we are *not* going back to how things were.”

COVID-19 is just like a match

It was always going to come to this. Whether it was a pandemic triggering a shutdown, a climate emergency bursting the carbon bubble, a populist backlash against inequality, wars over water or countless other possible triggers, this moment has long been inevitable. COVID-19 is just like a match thrown on a tinder dry forest floor on a hot indy day and starting a wildfire. The match isn't the key – it's where it lands. While of course a pandemic would always be an enormous economic and health

challenge, the context in which it lands is the key to our ability to manage it. Thus, we now see our economic system's inherent instabilities clearly exposed. The house of cards is collapsing. Won't this all pass? We'll find a cure, develop a vaccine, boost the economy and then everything will get back to normal. It'll take a few years, but we'll get back on track. Right? Wrong, very very wrong!

The Great Disruption

We are at the beginning of a process with an uncertain end. It could be a major recession, a full-scale depression, or a slide into systemic collapse. Or it could be a turning point – where we recover and build a very different kind of economy, one defined by sustainability and resilience with a focus on improving human well-being. This range of outcomes is uncertain. What is certain is that we are *not* going back to how things were. Why? We should always remember the true meaning of the word 'unsustainable'. You can never be sure when, or how it will happen, but one thing you can be very sure of is this: when things are unsustainable....they will stop. When I wrote my book "The Great Disruption" in 2011, I laid out this argument. At that time, I thought the climate crisis was the most predictable trigger point for a crisis that would drive system change. Basic physics showed that increasing emissions would, in the end, force an existential crisis. But like the match, the trigger is not the key.

It is underway

The book's main focus was the broad global system and its inherent unsustainability – and why a major disruption was inevitable. In summary the argument I made was this: An economy and human society built on the concept of infinite compound economic growth was, by itself, obviously ultimately unsustainable. It's like COVID-19 cases doubling several times a week – in a short time you go from a worrying number, to a collapsed health system and social chaos. On a longer time frame, it's the same with infinite economic growth. On top of that, I argued there were a series of 'system overload' points built into our economy – points that when reached would inevitably trigger a system wide crisis. These included points that when reached would inevitably trigger a system wide crisis:

- the emissions causing climate change and with it, water shortages, conflict, extreme weather and food crises;
- inequality causing political instability, polarization and protectionism;
- global poverty causing geopolitical instability, conflict and refugee crises;
- the delusional idea that when things get tough you can just 'print more money' – making the house of cards taller, and more unstable.

Economic contagion

Thus, we had built a system that, as a whole, behaved in a predictable way. There was always uncertainty what the trigger would be, but certainty that the moment would come. When things are unsustainable... they will stop. According Harvard Business Review – March 2020: "Economic contagion is now spreading as fast as the disease

itself”

Here we are in 2020. The house of cards is tumbling down and the inherent weaknesses of the system are being exposed – making the virus spread faster and the economic crash harder.

- Inequality means the virus spreads faster because of the lack of access to services¹;
- Our reliance on centralised fossil fuel supplies, especially oil, exacerbates financial system risks and geopolitical instability as the economy declines²;
- Huge levels of debt, incurred to keep the system afloat, put huge risks into the global financial markets, that the virus’s economic impacts could now tip over the edge³;
- Neo-liberalism’s⁴ success in reducing both the resources and the authority of the state, leaves many countries ill equipped to manage such a rapidly moving crisis, thereby magnifying the economic crash.

“Economic contagion is now spreading as fast as the disease itself”

Meanwhile governments vacillate between impossible choices – crash the economy and risk a global depression or crash the health system and kill millions, risking social chaos. Meanwhile governments vacillate between impossible choices – crash the economy and risk a global depression or crash the health system and kill millions, risking social chaos. The dreadful thing about the coronavirus is that it is all happening so quickly. This leaves little capacity to reflect on the system wide lessons and how we can avoid spiraling into an ongoing crisis, or worse. However, like any crisis and deep instability, we owe it to ourselves to understand, and act on, the lessons being learnt. As William Davies⁵ argued “To experience a crisis is to inhabit a world that is temporarily up for grabs.”

COVID-19 crisis

We can no longer prevent the COVID-19 crisis. We can only manage it aggressively to reduce suffering, loss of life and economic impact. However, we can still learn the lessons being thrust in our faces and drive the change needed to prevent future crises. Climate change is still coming at us hard and fast. We can reduce the inequality which will make future crises worse and harder to manage. We can recognize the benefit of our actions and economy being guided by science and expertise rather than ideology. And we can recognize that market economics is a useful tool, but not an ideology nor a way to run our lives – and therefore strong and competent government is central to human progress.

The future is still ours to make

I now find myself with time – thankfully isolated with my family on our farm in rural Tasmania, Australia. So, I will be putting my mind to reflections on these questions and sharing them with you here – in the Cockatoo (Corona) Chronicles.

The future is still ours to make. We can respond to this pandemic by acting to prevent future crises from overwhelming us. We have tinder dry fuel across the whole global system. If we don’t act to reduce it, a fire like this one could one day sweep all before

it.

There will be no vaccine for a global disruption triggered by climate change, inequality or ecosystem degradation. It's time to pay attention. The Great Disruption is underway.



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Footnotes

1. For Covid-19, inequality and poverty in both developed and developing economies is hindering access to health services, social services and effective sanitation. The ability to social distance is also compromised due to population density and the need to work. As has also been the trend with previous pandemics, these populations become some of the worst impacted by morbidity and mortality.
2. For example: In March this year the price of oil (WTI) fell towards \$20 per barrel vs the average oil price for 2019 of around \$57 pb. Most US shale oil producers budgeted for prices at \$55-65 pb for 2020, meaning shutdowns are inevitable for many heavily indebted firms. As was argued in Forbes, "A six-month spell of ultra-low prices could devalue a big chunk of the \$1.9 trillion in energy sector debt, including about \$300 billion in bank loans (by comparison, the value of the subprime mortgages held by Americans in 2007 was \$1.3 billion). In addition, as the Saudi-Russian price war continues to drive prices down, international tensions are emerging with US senators accusing Saudi Arabia of economic warfare, threatening to enact antitrust authority and withdraw US support for the war in Yemen.
3. While it's still too early to tell how different economies will respond to the fallout from Covid-19, as described by the Harvard Business Review we do know that "Economic contagion is now spreading as fast as the disease itself". They point out that the experience of the 2008 financial crisis shows different economies will have varying success in managing risk. As Ruchir Sharma, from Morgan Stanley recently argued in the NYT, what is different from the GFC is that "the largest and most risky pools of debt have shifted – from households and banks in the United States, which were restrained by regulators after the crisis, to corporations all over the world (~\$16 trillion)". This poses a whole new system wide risk. He points out that the level of debt in America's corporate sector amounts to 75 percent of GDP, breaking the previous record set in 2008. These debt burdens are precariously high in the auto, hospitality and transportation sectors — industries taking a direct hit from the coronavirus. Consider this on top of the arguments above about the US shale oil industry's debt.
4. Neoliberalism is when the control of economic factors shifts towards the private sector (free market capitalism), away from government spending, regulation and public ownership. It reduces the ability of the government to control essential services (especially in times of crisis), enhances corporate influence on State matters and drives a shift away from State welfare provision.
5. William Davies is a sociologist and political economist, this quote appeared in his March 24 article in The Guardian The last global crisis didn't change the world. But this one could

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