The consequences of COVID-19 for the decade ahead.
Vision 2050 issue brief
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In 2010, the World Business Council for Sustainable Development (WBCSD) released Vision 2050, a landmark piece of work that laid out a pathway to a world in which nine billion people are able to live well, within planetary boundaries, by mid-century.

In 2019, WBCSD decided to revisit its Vision 2050 work – 10 years on, we had not made as much progress against the Vision 2050 pathway as required. We would bring the pathway in line with the SDGs, we would update to reflect some of the great changes that had unfolded, and we would reprioritize the critical actions that business could drive during what the UN would dub as the “decade of delivery”.

40 members signed up to support this effort, led by WBCSD’s Executive Committee. A team was built with the support of member secondments. Workstreams were set up to investigate how systems transform, how best to update the pathway to Vision 2050, what the 2020-2030 operating environment would look like, what key enablers of transformation business would need to leverage, and how sustainability approaches and priorities varied in different parts of the world.

Then 2020 began. COVID-19 now represents the worst public health crisis and certainly the deepest economic downturn of the modern era. It is revealing terrible vulnerabilities in public health systems and economies around the world, as well as how major disruptions can rapidly snowball through interconnected systems.

We had already developed a picture of the 2020-2030 operating landscape - what the next 10 years might throw at business. Not just in terms of sustainability challenges: we wanted to explore more generally what the world would look like, and consider how that would affect business’ ability to operate successfully. We wanted to identify the headwinds and tailwinds that business might experience over the next 10 years, and how those might affect our efforts to deliver on our Vision 2050, of 9+ billion people living well, within planetary boundaries. We wanted business to be able to prepare for these trends and shocks that might occur over the decade.

COVID-19, a single disruption, has triggered multiple shocks and accelerated many of the macrotrends that we had identified. How we respond to it will undoubtedly shape the decade to come.

In this issue brief we will
• outline the vulnerabilities that COVID-19 is exposing
• present the ways in which it will shape the 2020s: how it will interact with existing socio-economic, political and cultural divides; how it may accelerate or decelerate existing trends; how it increases the likelihood of other major disruptions occurring; and how the recovery might unfold
• explore the opportunity that it offers to reset the norms and rules of capitalism in ways that enable businesses and economies to become more resilient and regenerative.

This issue brief has been developed by the Vision 2050 team in partnership with Volans and forms the first of three deliverables from WBCSD’s COVID-19 Response Project exploring long-term resilience. It is best read alongside our Vision 2050 issue brief on the Macrotrends and Disruptions shaping 2020-2030.
Introduction: What color of swan?

I know that history is going to be dominated by an improbable event, I just don't know what that event will be.

Nassim Nicholas Taleb
The Black Swan

Opinions differ on whether COVID-19 qualifies as a ‘Black Swan’ event. The pandemic was both predictable and predicted. Yet it took most of the world by surprise. Governments and businesses alike were caught underprepared - both for the health crisis and the resulting social and economic fallout. On 31 March, Nassim Nicholas Taleb, who coined the term ‘Black Swan’, waded into the debate: COVID-19 is not a Black Swan in his view; the crisis we are now in was predictable and preventable; those arguing otherwise are simply trying to justify their own lack of preparedness.

Semantics aside, the COVID-19 pandemic is clearly a profoundly disruptive event that will have far-reaching short- and long-term consequences for global health, politics, economics and more. The pandemic - and the near-term response to it - will cast a long shadow. But it also opens up a window of opportunity. In many countries, it has made policy interventions that were previously unthinkable inevitable - at least in the short term. It has temporarily weakened what Milton Friedman called ‘the tyranny of the status quo’, creating a context in which radical, systemic change is possible.

These windows of opportunity don’t come along all that often (though they may become more common in the future, since our globalized society and economy is, arguably, more prone to systemic shocks and crises than ever before). All historical parallels are imperfect, but, in terms of the nature and scale of disruption, COVID-19 is certainly up there with the biggest crises of the last 100 years or so: the 1918-19 flu pandemic; the Great Depression; World Wars One and Two; the oil crises of the 1970s; the 2007-8 financial crisis. All of these previous crises led to profound political, economic and social change - some of it good, some of it less so. A lot is riding on our response to this crisis.

This paper explores the implications, risks and opportunities of COVID-19 for the achievement of WBCSD’s Vision 2050 agenda, a world where 9+ billion people live well, within planetary boundaries.

• In section 1, we look at what COVID-19 has revealed about the fragility of the systems on which we rely.
• In section 2, we consider how the crisis could shape the next decade.
• In section 3, we look back to the 2008-9 financial crisis to see how our responses could affect how the next 10 years unfold.
• Finally, in section 4, we look at the potential role of the business community in ensuring that the global response to COVID-19 helps accelerate the transition to a world where 9+ billion people live well within planetary boundaries.

Like all crises, the COVID-19 pandemic has the potential to be a catalyst for positive change. Clearly, in the short term, its consequences are overwhelmingly negative – and attention is rightly focused on how to minimize loss of life and mitigate the impact on health, wellbeing and people’s livelihoods. But precisely because it is so disruptive a shock to our economic and political systems, there is also the possibility that COVID-19 will help accelerate the emergence of what John Elkington refers to as ‘Green Swans’.

Green Swans are profound market shifts with exponentially positive consequences for people and planet. They rely on a combination of changing paradigms, values, mindsets, politics, policies, technologies, business models, and other factors – all of which tend to shift further and faster in times of crisis. This is about much more than a few behavioral changes necessitated by the pandemic – e.g., a shift to remote working in some professions/industries – proving sticky; it’s about the extent to which COVID-19 forces us to fundamentally re-assess what we value and how we operate.

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1 A Black Swan is a highly improbable outlier event that has a disproportionate impact.
4 John Elkington, Green Swans: The Coming Boom in Regenerative Capitalism (Fast Company Press, 2020)
What COVID-19 has exposed

At the time of writing, COVID-19 continues to have a devastating impact on lives and livelihoods around the world. It has revealed some hard truths about the scale of the systemic risks we face and the lack of resilience built into our current operating models. We outline five factors that have all contributed to making both the health crisis and the resulting economic crisis worse.

1. OUR DEPENDENCE ON ECONOMIC GROWTH

The pandemic – and governments’ response to it – has triggered a dramatic and sustained drop both in global demand and production. Around the world, millions of businesses and billions of people’s livelihoods are suffering or at risk as a result. Governments are scrambling to provide temporary support to the many businesses and households that have no financial buffer. But, as UC Berkeley economist Pierre-Olivier Gourinchas notes, ‘flattening the infection curve inevitably steepens the macroeconomic recession curve.’5 This trade-off was, without doubt, a key factor in many policymakers’ initial reluctance to embrace containment measures – a reluctance that may have worsened both the health and economic crises in the long run.

There is no responsible way for governments to stimulate consumer demand – and thereby economic growth – until the health crisis passes. Yet the macroeconomic recession also has a severe human cost – especially in countries without strong safety nets for the millions of workers who suddenly find themselves unemployed. This puts governments in a double bind. The degree to which social stability and welfare in today’s world is dependent on constant economic growth has become a source of vulnerability in the face of the COVID-19 pandemic.

5 https://voxeu.org/content/mitigating-covid-economic-crisis-act-fast-and-do-whatever-it-takes
2. HIGH LEVELS OF INEQUALITY WITHIN AND BETWEEN COUNTRIES

How people experience the pandemic is partly determined by where they sit on the global wealth and income spectrum. Those at the top have an ample financial buffer and access to high-quality healthcare; those at the bottom have neither of these things. As a result, inequality acts as a ‘threat magnifier’, interacting with the spread of the virus in ways that increase the vulnerability of society as a whole. As Professor Ian Goldin and Robert Muggah note, ‘social isolation simply is not an option for multiple family members crowded into a single-room home or for those who must commute to put food on the table’.6

In developing and developed countries alike, many workers belong to the so-called “precariat”, meaning they have likely seen decades of wage stagnation, have little or no job security and lack access to benefits such as paid sick leave or health insurance. The “precariat” has seen its numbers swell in recent years as the number of contractors, freelancers and gig economy workers has exploded. These workers have typically been amongst the first to see their livelihoods threatened by the pandemic. For the most part, responsibility for underwriting the economic welfare of the precariat has fallen to governments – leaving even the wealthiest countries struggling to cope.

3. THE WEAKNESS OF NORMS AND INSTITUTIONS THAT ENABLE COORDINATION AND COLLABORATION

Both between countries and within them, the lack of coordination in the way that governments and other actors have responded to the pandemic has demonstrated just how badly norms and institutions designed to facilitate collaboration have been eroded in recent years. Some countries have banned exports of medical equipment and critical supplies. Rich nations have mostly been reluctant to offer support to poorer countries. Transnational institutions – from the G20 to the EU – have largely been sidelined. In the US, individual states and hospitals have been left to compete with one another for scarce medical supplies, driving up prices for all.7

One partial exception has been China’s so-called ‘mask diplomacy’8 – though negative headlines about masks being recalled and test kits proving defective, as well as about China’s initial handling of the pandemic, have to some extent undermined China’s diplomatic efforts. Overall, the lack of coordination is hampering the effectiveness of the response to both the health crisis and the economic crisis. Given how contagious the virus is, a failure to confront the pandemic in all countries will likely lead to recurring outbreaks as and when economic and travel lockdowns begin to be lifted.

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7 https://www.washingtonpost.com/business/2020/03/24/scramble-medical-equipment-descends-into-chaos-us-states-hospitals-compete-rare-supplies/
8 https://thediplomat.com/2020/03/chinas-mask-diplomacy/
4. UNDER-INVESTMENT IN HEALTHCARE SYSTEMS, SCIENTIFIC RESEARCH AND PREPAREDNESS

“This shouldn’t have been a surprise,” says Dr. Seth Berkley, CEO of Gavi, the Vaccine Alliance. "This is the third coronavirus that has jumped into humans. We had SARS in early 2002. We had MERS a number of years later, and now we have this virus.”

In fact, between 2011 and 2018, the World Health Organization tracked 1483 epidemic events in 172 countries. As Michael Liebreich notes, we should have been acting as though we face a pandemic threat every three or four years, because that is the reality. What’s more, the risk of zoonotic epidemics and pandemics is increasing as a result of deforestation, climate change, urbanization and global connectedness.

Yet, despite its predictability, COVID-19 has rapidly overwhelmed the health systems of even some of the world’s richest countries – whilst exposing how far from achieving universal health coverage we currently are in both developed and developing countries. It has exposed a lack of preparedness that had been flagged for years by experts: writing in the Global Preparedness Monitoring Board’s 2019 annual report, Gro Harlem Brundtland and Elhadj As Sy warned that “for too long, we have allowed a cycle of panic and neglect when it comes to pandemics: we ramp up efforts when there is a serious threat, then quickly forget about them when the threat subsides. It is well past time to act.” The rapidly rising death-toll provides a stark reminder of the very real human costs of our failure to act before the crisis struck.

Under-investment in health systems is undoubtedly a contributing factor in many countries: while global health spending has grown faster than the overall economy since 2000, the rate of growth – particularly in public spending – has fallen significantly since 2010 (compared with the decade before) as a result of austerity programs adopted by many governments in the wake of the 2007-8 financial crisis.

(https://www.forbes.com/sites/jeffmcmahon/2020/04/01/there-are-30000-more-coronaviruses-environmental-disasters-are-bringing-them-to-your-door/#38d2cbbc79e8)

(https://apps.who.int/gpmb/assets/annual_report/GPMB_annualreport_2019.pdf)

(https://about.bnef.com/blog/covid-19-the-low-carbon-crisis/)


(https://www.forbes.com/sites/jeffmcmahon/2020/04/01/there-are-30000-more-coronaviruses-environmental-disasters-are-bringing-them-to-your-door/#34d2cbbc79e8)
5. TOO MUCH FOCUS ON EFFICIENCY AND SHORT-TERM VALUE BY BUSINESSES

As Roger L. Martin noted in a 2019 Harvard Business Review article, ‘resilient systems are typically characterized by the very features – diversity and redundancy, or slack – that efficiency seeks to destroy.’

This is a problem since much of the corporate world has been fine-tuned to maximize efficiency: the prevalence of ‘just-in-time’ manufacturing and supply chains are a case in point. A survey by the Institute for Supply Chain Management conducted in late February and early March found that nearly 75% of companies were experiencing some kind of supply-chain disruption due to the coronavirus, and 44% didn’t have a plan to deal with this kind of disruption.

An excessive focus on short-term financial value maximization – and an excessive build-up of corporate debt during an era of low interest rates – has also left many companies ill-prepared to deal with an economic shock, such as the one triggered by COVID-19. Last October, the IMF warned that an economic slowdown half as severe as the 2007-8 global financial crisis could result in USD $19 trillion of corporate debt (nearly 40% of total corporate debt in major economies) being owed by firms that cannot cover their interest expenses with their earnings. That would be worrying enough if the COVID-19 crash were only half as severe as the global financial crisis: unfortunately it looks like it will be significantly worse. In early January, an HBR article warned that companies that engage in share buybacks ‘deprive themselves of the liquidity that might help them cope when sales and profits decline in an economic downturn.’

As well as exposing vulnerabilities, COVID-19 has also highlighted the type of response governments, businesses and international institutions are capable of when faced with an emergency of a certain type. Many may have been slow off the mark, but the speed and scale with which resources have since been mobilized to battle the public health emergency and to shore up livelihoods and businesses has been record-breaking in many countries. “Whatever it takes” has become a mantra of governments and central banks around the world. The Economist reported in late March that, according to the most conservative estimates, the global stimulus from government spending this year will exceed 2% of global GDP – more than was seen in 2007-9. Much more than that may still be needed, given the likelihood that the pandemic will inflict lasting economic damage on many industries – and it remains to be seen what the long-term consequences of governments having to inject so much money into their economies will be.

Clearly, COVID-19 represents a clear and present danger to populations the world over. But so do other, slower-unfolding planetary emergencies – from climate change to poverty and non-communicable diseases. The speed and scale of the global response to COVID-19 raises the question of what we might yet be capable of in the face of these other emergencies.

16 https://hbr.org/2019/01/rethinking-efficiency?mod=article_inline
17 https://amp.theatlantic.com/amp/article/608329/
20 https://hbr.org/2020/01/why-stock-buybacks-are-dangerous-for-the-economy
How COVID-19 could shape the 2020s

The ripple effects from COVID-19 are likely to be felt for many years. In this section, we look at the ways in which the crisis is interacting with existing global trends and issues – particularly those identified in our Vision 2050 issue brief on the Macrotrends and Disruptions shaping 2020-2030.

1. **HOW COVID-19 INTERACTS WITH EXISTING SOCIO-ECONOMIC, POLITICAL AND CULTURAL DIVIDES**

COVID-19 affects different groups differently: the old are more vulnerable than the young; men and obese people are more at risk than women and non-obese people; the rich are better protected than the poor. In some cases the pandemic will exacerbate tensions, but it also creates a context in which building solidarity between groups whose interests are normally opposed becomes possible. Key societal fault lines that COVID-19 is interacting with in complex ways include:

**Income and wealth inequality:** currently, those at the bottom of the wealth and income spectrum are being hit hardest by COVID-19. They are least likely to have access to adequate healthcare. Many cannot afford to stop going to work, putting themselves and others at risk. COVID-19 may, in the short run, reduce inequality by making the rich poorer, but this is likely to be a relatively short-lived effect. Longer term, COVID-19 is likely to increase the level of inequality within and between countries, though the post-crisis policy response (see section 3) will be critical to how this plays out.

**Gender inequality:** there is mounting evidence that the social and economic fallout from COVID-19 is disproportionately impacting women. Under lockdown, women and girls are taking on the majority of the caring burden – often at the expense of their own health, careers and education. Girls are more likely to be withdrawn from school to save money than boys. Professional women working from home are more likely to take on responsibility for home-schooling and entertaining children than men. Sacrifices made (willingly or not) in the short term are likely to have a long-term dampening effect on women's earnings. Tragically, too, domestic violence seems to be on the rise in households under lockdown.
Intergenerational dynamics: irrespective of COVID-19, a generational handover of political, cultural and economic power is underway and will continue throughout the 2020s. While it is older people who face the greatest health risk from this pandemic, the longer-term economic fallout will disproportionately impact the young. Those hoping to enter the workforce for the first time in the early 2020s will be doing so in very adverse circumstances. Many will struggle to find jobs at all. Age cohorts that come of age during recessions tend to experience a long-term hit to their earnings. In the same way that the 2007-8 financial crisis and its aftermath left many Millennials disenchanted with the status quo, COVID-19 is likely to color Gen Z’s view of the world for years to come. Many will feel very little loyalty – and, in some cases, a great deal of resentment – towards a system that has failed to deliver prosperity for them. This could drive a wedge between the generations in terms of their economic and political interests.

Polarization and atomization: for all of the above reasons, there is a risk that COVID-19 will exacerbate political polarization and instability. But it has also in many places brought local communities together, fostered a spirit of solidarity and mutual responsibility, and created a new level of awareness of our interconnectedness and interdependence. Societies have been becoming more atomized for decades, but because the process has been slow and incremental, it has met with little resistance. Now that COVID-19 has forced people into isolation, many more are noticing the value of community and relationships. This is not a universal phenomenon by any means and it remains to be seen how much of this spirit of solidarity will persist after the crisis ends, but it at least holds out the possibility of a bottom-up strengthening of the social fabric.

Nationalism and globalism: the initial response to COVID-19 around the world has highlighted the strength of nationalism in many countries and the relative weakness of multilateralism. Many countries closed borders unilaterally and banned exports of medical supplies. The crisis has put a strain on already frayed relations between countries within the Eurozone and EU. It has certainly exacerbated tensions between the US and China – as well as in other important trading relationships. There are few signs – yet – of effective multilateral coordination and collaboration to address the pandemic and its consequences, with many poorer countries left in a desperate situation due to the lack of support from the international community. It is possible that governments may yet choose global – or at least regional – solidarity over nationalist isolation, but it doesn’t look especially likely right now.
2. PRESSING FAST FORWARD ON EXISTING TRENDS

As historian Yuval Noah Harari notes, the nature of emergencies is that they ‘fast-forward historical processes’.22 Already, the crisis is acting as an accelerant for several trends that were already underway.

**Reshoring:** COVID-19 is prompting both companies and governments to focus on securing critical supplies, with some governments even banning exports of protective equipment. In the wake of the crisis, many companies will look to increase the resilience of their supply chains by reducing complexity and embracing diversity and redundancy, not just efficiency. The trend of bringing production closer to consumer markets (“reshoring”), which was already starting to happen as a result of technological change and turbulent geopolitics before COVID-19, is likely to accelerate as a result of the crisis, though the pace of change will be uneven across different industries. ‘In terms of physical flows, 2019 will likely go down in history as the time of peak supply chain fragmentation’, argues Professor Ian Goldin of the Oxford Martin School.23

**Digitalization:** physical lockdown has accelerated the digitalization of many parts of the economy. E-commerce sites have thrived while bricks-and-mortar retail has been largely shut down in many parts of the world. Remote working, schooling and telemedicine have become much more prevalent for those lucky enough to benefit from it. So too, alas, has cybercrime. Some of this is a short-term effect of the crisis, but some behavioral changes will stick. Furthermore, the challenges and disruptions caused by COVID-19 are turbocharging the rate of technological innovation in some areas – from collaborative medical research and the race to develop a vaccine, to the deployment of 3D design and printing in manufacturing.24

**Surveillance:** many states have rapidly deployed existing surveillance technologies to help monitor and slow the spread of the pandemic, often enlisting large tech companies as essential partners in this endeavor. Some governments appear to be using the crisis as an opportunity to override resistance to surveillance measures, introducing emergency regulations that are likely to outlast the emergency. Ending lockdowns and ensuring the world is more prepared for the next pandemic will almost certainly mean implementing ever more sophisticated systems of ‘bio-surveillance’. So-called health or immunity passports that use biometrics are being widely touted as a means of gradually easing lockdowns. Likewise contact tracing. These practices raise concerns about data ethics and privacy. There is a chance, however, that the pandemic will make people more willing, at least in the short term, to give up a degree of privacy for the promise of greater security – as has been the case with other shocks, for instance terrorist attacks, in the past.25

**Autocratization:** during the last decade, the number of countries moving in an authoritarian direction has overtaken the number of countries moving in a democratic direction for the first time since World War II.26 Already some authoritarian rulers are using this crisis as an opportunity to consolidate power and suspend democracy. As more elections are postponed and public gatherings banned on health grounds, many countries where democratic norms and institutions were already weak before COVID-19 may slide towards more autocratic forms of government.

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22 https://www.ft.com/content/19d90308-6858-11ea-a3c9-1fe6fedcca75
23 https://www.oxfordmartin.ox.ac.uk/blog/the-world-after-coronavirus-cannot-be-the-same/
24 http://blog.else-corp.com/2020/03/how-3d-design-is-transforming-supply-chain/
3. WHAT COVID-19 MAKES MORE AND LESS LIKELY

As well as exacerbating existing tensions and accelerating existing trends, COVID-19 may have changed the way certain trends play out over the decade ahead:

• The rate of urbanization may decrease as higher infection risk in cities makes them less attractive places to live and work.

• Some industries (e.g., travel and tourism) may never fully recover as certain temporary behavioral shifts endure. This is especially likely to be true of industries that rely on discretionary consumer spending (which will almost certainly be lower for years to come) and/or where the behavioral changes required during lockdown have other social or environmental benefits.

• Trust in science and experts has received a temporary boost during the pandemic and the value of competent government has been highlighted. This may take the wind out of certain populist leaders’ sails, though it is unlikely to turn the tide on populism as a whole.

• A newfound appreciation for low-paid “key workers” may translate into a political shift in favor of egalitarianism.

• Urban populations’ experience of cleaner air during lockdown may lead to longer-term pressure on municipal and national governments to cut air pollution permanently.

There is also a possibility of domino effects, with the COVID-19 pandemic triggering other major disruptions over the months and years ahead. A global pandemic was one of ten potential disruptions we highlighted in our analysis of the 2020-30 Operating Environment before COVID-19 struck. The other nine potential disruptions have probably all become more likely as a result of the pandemic. These include:

• A financial crisis triggered by the overlay of the severest economic contraction in decades onto an economy already carrying extremely high levels of debt, particularly in the corporate sector.

• Popular uprisings that lead to regime change as real economic hardship bites and populaces turn on governments perceived to have handled both the health and economic crises poorly.

• A tipping point for the global energy transition (some analysts now believe that fossil fuel demand may have peaked in 2019) that in turn triggers a sudden correction in the way financial markets price climate risk.

• A societal and regulatory “techlash” later in the decade prompted by the fact that Big Tech will almost certainly emerge from the current crisis even more dominant relative to (potential) competitors.

• A Global Green (New) Deal made more likely by a shift in citizens’ expectations about the role of government in responding to crises and the need for major public investment to stimulate economic recovery.

In short, rather than expect a “new normal” in the wake of COVID-19, we should perhaps think in terms of a “new abnormal” in which disruptions that trigger rapid and extreme outcomes (compared with the status quo) become increasingly common.

27 https://carbontracker.org/was-2019-the-peak-of-the-fossil-fuel-era/
A question of fairness: learning lessons from history to inform a more equitable post-crisis recovery

The economic hangover from COVID-19 is likely to be painful and long. As two World Bank economists note, “many households will have depleted savings or large debt and will need to save more and consume less. Similarly, firms and financial institutions will need to rebuild their balance sheet and will thus be less able to invest. [The same is likely to be true of governments and central banks.] It is reasonable to expect aggregate demand to remain depressed for an extended period after the pandemic is over.”

In this context, the design and implementation of government policies as we move from rescue to recovery will play a crucial role in determining what the long-term legacy of COVID-19 looks like. Looking back from 2030, we may see COVID-19 as a catalyst for positive change that helped shift the global economy onto a more inclusive and sustainable path. But we may also see it as an event that exacerbated divisions within and between countries, catalyzing a great unravelling that led to instability and even violence.

The decisions taken by governments in the wake of the 2007-8 financial crisis sowed the seeds for a populist backlash in the second half of the 2010s because they created a very strong perception of unfairness: those who had caused the crisis received bailouts and saw their pay packages recover quickly post-crisis; those who were innocent bystanders paid the price in the form of a decade of fiscal austerity and stagnant wages. A 2019 Ipsos poll carried out across 27 countries found that 70% of people believe that their country’s economy is rigged to advantage the rich and powerful. This is consistent with many other polls from earlier in the decade.

Given this starting point, a poorly designed response to COVID-19 that further exacerbates the perception of unfairness could have disastrous consequences for democracy and capitalism. As Rana Foroohar wrote in the Financial Times on 22 March, “if we want capitalism and liberal democracy to survive COVID-19, we cannot afford to repeat the mistaken “socialize the losses, privatize the gains” approach used a decade ago.”

But the worst-case outcome is not (yet) baked in. We can avoid repeating the mistakes that were made in the aftermath of 2007-8. That means structuring recovery packages in ways that ensure the most vulnerable members of society get the best deal. It means prioritizing the interests of workers and SMEs as the engines of our economies. And it means choosing public investment, coupled with tax reform, rather than austerity, as the recipe for recovery – ideally using investment to kickstart the decarbonization of economies, creating jobs in the process. If we get this right, COVID-19 could massively accelerate progress towards Vision 2050.

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30 https://www.ft.com/content/c9836210-6aa4-11ea-800d-d7af0f6e4d3
An opportunity to reset capitalism: the role of business

As we have seen, crises can fast-forward processes that were already underway. This is also true for the debate about the future of capitalism and the role of business in shaping that future, which was already gathering momentum before the pandemic struck.

Shifting to a more stakeholder-oriented form of capitalism becomes more, not less, important in the wake of COVID-19. The economic consequences of the pandemic will put a severe strain on political and social stability. Only by ensuring the recovery is inclusive – benefitting all stakeholders – can we avoid a populist backlash against ‘capitalism’ that would ultimately make the recovery slower and more unequal.

COVID-19 has also provided a stark reminder of the scale of systemic risks that can build up – and the exponential impact these can have – when we allow negative externalities to accumulate over time. It is clear that deforestation, biodiversity loss, climate change and inequality all contributed either to increasing the risk of a crisis like the one we’re in or making our societies and economies more vulnerable in the face of it. Given this, there is an opportunity post-crisis to accelerate work that was already underway to enable markets to integrate social and environmental impacts into financial valuations, helping to create stronger incentives for resilience-building, decarbonization and inclusive growth.

From the perspective of business, COVID-19 responses need to accelerate an expansion of the corporate sustainability agenda that was nascent before the crisis. One way to understand this necessary expansion is in terms of “the three Rs (3Rs)”31 Responsibility is the principle frame through which companies have viewed sustainability issues to date and it will remain a critical imperative, particularly in the immediate crisis response phase; as we move into the post-crisis phase though, Resilience and Regeneration will both become increasingly important and will be where focus needs to turn.

The value of building resilience at all levels – from individual businesses to supply chains to the global economy – should be self-evident in the wake of COVID-19, given what the pandemic has exposed about our vulnerability to systemic shocks that are predictable. Regeneration matters because it is only by regenerating economies, communities and the biosphere that we will be able to achieve true resilience in an interconnected, interdependent world. How companies contribute to systemic efforts to foster resilience and regeneration will be a vital test – and a potential source of opportunity – in the post-pandemic world.

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31 https://volans.com/project/tomorrows-capitalism-inquiry/
33 https://www.ft.com/content/040be2bd-a202-46e7-92d2-2c227c8e0465
THE 3RS IN THE CONTEXT OF COVID-19

Several organizations have published frameworks and principles to guide business in how to respond to the COVID-19 emergency responsibly. The emphasis in these is on supporting vulnerable stakeholders through the crisis - and rightly so. Bailouts and other forms of state aid also impose responsibilities on businesses, whether or not government support packages come with formal strings attached. For example, in some countries, companies on the receiving end of state aid are under pressure to reduce or scrap dividend payments, on the grounds that for them to distribute profits to shareholders at this moment in time would be irresponsible.

In the coming months and years, companies will need to prioritize resilience-building to ensure they are better prepared for the next shock when it comes. For many, this will mean establishing a better balance between efficiency and resilience in everything from supply chain configuration to financial management. "Just-in-time" production and procurement may give way somewhat to "just-in-case" inventories and diversity of both suppliers and customers. For some, it will require the development and roll-out of new business models, designed for an age of physical retrenchment and digital expansion.

In terms of financial resilience, companies requiring bailouts may come under pressure to build up stronger cash reserves – though there is also a risk that some companies will assume that they can always rely on governments to step in and do "whatever it takes" in a crisis, so why bother investing in preparedness? Nonetheless, for publicly-listed companies, buybacks, dividends and remuneration schemes will almost certainly be more closely scrutinized in the aftermath of the pandemic. So too will tax arrangements: some governments have already indicated that they will not bail out companies that are registered in tax havens.

Building systemic resilience will require collaboration across business, finance and government to ensure systemic risks are priced into markets, and to implement local, national and international mitigation and adaptation strategies. A useful starting point will be for businesses to collaborate with other market actors to improve the quality and consistency of ESG data and climate risk disclosures, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and the EU taxonomy for sustainable activities. This will enable markets to better price in risks, triggering a reorientation of capital flows away from the most at-risk businesses and towards those that are contributing to the emergence of a more resilient and regenerative economy through their core business activities. Businesses will need to use these disclosures as the basis for engagement and dialogue with investors, working to rebuild confidence by clearly and transparently articulating strategies for boosting resilience and regeneration in the wake of the crisis.

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BUILDING BACK BETTER

Given the expanded role that governments will inevitably play in the post-COVID economy, new models of partnership and collaboration between business, government and finance are also vital. Forward-looking companies have a role to play in advocating post-crisis reforms and policies that will ensure that the direction of the economic recovery is aligned with the SDGs, the Paris Agreement and WBCSD’s Vision 2050. Many proposals for how to ensure stimulus packages foster a just transition to a lower carbon economy have already been tabled – and doubtless many more will emerge over the months ahead. All will require support, collective ambition, and leadership.

For stimulus and investment to work, demand is needed, as well as capital. After the Second World War, the need to physically rebuild Europe’s cities and industry meant there was ample demand for the capital provided through the Marshall Plan and it was put to productive use. COVID-19 has not wrought physical destruction, so a vital question for the economic recovery is where the demand will come from, particularly as it is unlikely to come from consumers, who may well spend less than they did pre-COVID-19 for years to come. The challenge of decarbonizing entire sectors and economies can be the source of demand needed to kickstart economic recovery. For companies, setting Science-Based Targets for climate and biodiversity – and then working with partners across their value chains to achieve them – is a way to contribute to the goal of building back better.
GIVING TEETH TO
STAKEHOLDER CAPITALISM

COVID-19 has exposed many of shareholder capitalism’s vulnerabilities: a lack of financial and supply chain resilience created by the relentless pursuit of efficiency and short-term profit maximization; chronic under-investment in preparedness for systemic shocks; incentives that drive companies to offer precarious rather than stable forms of employment – and to leave vital public services underfunded. As we have seen, the rules and norms of shareholder capitalism exacerbated the crisis by undermining resilience at all levels.

This serves only to strengthen the argument for shifting towards a more stakeholder-oriented model. As governments, businesses and investors work together on post-crisis recovery plans, there is an opportunity to reset rules and norms. A new social contract between workers, firms and governments is needed in order to strengthen social safety nets and ensure that the risks and costs associated with systemic crises are more equitably distributed before the next crisis hits.

Turning stakeholder capitalism from rhetoric into reality requires changes to be made in three areas:

1. **Ownership and governance:**
   there are many examples around the world of corporate governance structures and ownership models that ensure the interests of different stakeholders are brought to bear on corporate decision-making. These should be refined and replicated.

2. **Law and regulation:**
   maximizing stakeholder value rather than maximizing shareholder value needs to become the default setting for business. In some instances, laws will need to be rewritten, or the interpretation of existing laws challenged, to ensure that all companies are obliged to measure and manage non-financial impacts.

3. **Pay and incentives:**
   if companies are to be run for the benefit of all stakeholders, executive remuneration needs to be linked to a broader set of metrics that reflect the value that companies create for all stakeholders, including communities and the natural environment – not just shareholders.

On the surface, these changes may seem unrelated to COVID-19 responses and priorities, but they are in fact critical to ensuring that the economic recovery is sustainable and inclusive. This is an opportunity to confront the broken norms and incentives at the heart of our current model of capitalism and make substantive reforms. If we don’t, systemic risks and vulnerabilities will continue to accumulate, making future shocks both more likely and more dangerous.
COVID-19 will be with us for some time. The impacts likely need to be measured in years and decades rather than weeks and months. The pandemic has revealed how quickly and decisively governments, business and society can act when an emergency is perceived to be real. We must acknowledge that we have not seen similar levels of action taken when it comes to challenges such as climate change, biodiversity and inequality. Nonetheless, change nearly always follows a shock, and change is at the heart of all human progress. It is up to each and every one of us to drive the recovery in the direction of greater economic, social, and environmental resilience.

The Vision 2050 Refresh team is further exploring the main concepts discussed in this issue brief. A deeper review of the macrotrends and disruptions (both related to COVID-19 and those that were preceded it) is already available in our Vision 2050 issue brief on the Macrotrends and Disruptions shaping 2020-2030 (also backed up by supporting research into the 2020-2030 Operating Environment). We will also be releasing a Vision 2050 issue brief that will more deeply examine the role that business can and should play in bringing about changes in support of Stakeholder Capitalism.

A guidance for business detailing key actions that will support improved long-term resilience is also planned. In addition, WBCSD’s COVID-19 Response Project is looking at immediate recovery options in more detail in its Return to “Normal” Scenarios project.

We will at all times continue to evaluate the impacts of the COVID-19 pandemic, working to keep transformation of systems, in support of our Vision 2050 of 9+ billion people, living well, within planetary boundaries, at the heart of business’ response to this crisis and to our long-term recovery efforts.
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WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies. Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. Since 1995, WBCSD has been uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050.

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