



Nobel Perspectives: on a post COVID-19 world

Oliver Hart

As part of the UBS Nobel Perspectives program, our webinar series allows you to ask your questions directly to Nobel Laureates in Economic Sciences.

UBS Nobel Perspectives addresses the questions shaping our world, cutting through the noise, and holding the largest content library of Nobel Laureate interviews.

Professor Oliver Hart is a 2016 co-recipient of the Nobel Prize in Economic Sciences and currently Professor at Harvard University. Known for his work as a contract theorist, as well as a true specialist on the pitfalls of contract design, he has devoted his latest research to the world of corporate sustainable contributions. He joined Michael Baldinger Head of Sustainable and Impact Investing at UBS Asset Management, in a webinar to discuss the implications of the COVID-19 pandemic and what it means for investors.

Key webinar takeaways

- Many shareholders are willing to accept lower profits if the company's investment approach or strategy is aligned to their own values
- Corporations need to consult their shareholders more on the adoption of ESG factors versus profit trade off
- The pandemic has highlighted the importance of human capital, alongside physical capital
- Social injustice issues remain with highly skilled workers having greater bargaining power for working conditions than unskilled workers
- COVID-19 has produced learnings for governance best practice
- Governments have efficient tools at their disposal to address climate change including subsidies for green energy, investment in research and development or a carbon tax

Michael Baldinger, Head of Sustainability and Impact Investing

For this special webinar, we focus on the relevance of Environmental, Social and Governance (ESG) factors when thinking about the situation we currently find ourselves in. Is sustainable investing (SI) at a pivotal point? We discuss the challenges and their demands for massive public and private sector capital solutions if climate change is going to be addressed in the current environment.

The world in the grasp of COVID-19

How is the COVID-19 crisis different to other crises in your opinion? How should governments be responding?

This crisis was unique because it was not a demand-led recession caused by factors inside of the economic system, like most other economic crises. The pandemic was caused by the virus, outside the economic system and required a different response. Two reasons which forced businesses to temporarily stop operating were safety and efficiency. They did not stop running due to insufficient demand.

The primary role of the government is to contain the virus, firstly by responding quickly to the public health crisis and secondly to protect individuals from the economic implications, especially low income earners. Not enough was done for those workers and instead we saw the larger corporations receiving a greater proportion of the support.

The effectiveness of governments' and corporate governance structures is in the spotlight. What has the pandemic revealed in terms of governance best / worst practice?

Early on in the crisis, UK and US leaders ignored the advice of scientific experts, which has been counterproductive. The scientists may not always agree among themselves but they possess the expertise. For example, the advice to wear masks in public was communicated too late and was too vague. At the same time, governments had a role to correctly judge the timing and the extent of freedom given, which impacts others and the risk of infection transmission. We are still learning, the best practice is therefore to rely on scientific experts.

Moving on to corporate governance, how resilient to social and economic stress have companies been during this crisis?

Companies that held on to excess cash appear to be in better shape, such as the larger tech companies. Bankruptcies have occurred for those cash-stretched companies who were not able to weather the storm.

It is a sensible strategy for individuals and companies to retain reserves or savings and to some extent insure against another disastrous event. In addition to having cash, having liquid assets which can be turned into cash, such as company shares, is another way to plan for an event of this kind.

Companies who performed share buy backs and spent that cash are now worse off, but that is not to say they cannot tap markets again in the future.

We are seeing the SI trend accelerate for various reasons such as regulation, stakeholder management and investors considering ESG criteria before making an investment decision. Since COVID-19, do you see the SI trend accelerating faster?

" Over the past 18-36 months we've seen a remarkable transformation in the way the world's largest asset owners are allocating capital and their focus on sustainability issues. The free capital markets are the most powerful transmission mechanism to promote corporate sustainability. "

Michael Baldinger

Investors will now pay more attention to the risk of a future pandemic, perhaps as we see more of them emerge. The world is very interconnected and a crisis could happen again at any point.

Now more than ever, the largest asset owners are scrutinizing ESG criteria before making investment decisions. Companies will need to consider proper pandemic planning and consider their ESG approach in a way that many investors are now expecting in order to attract capital at the right cost.

Unlocking the world's population

So far, some of the issues grouped under the 'S' (social) category of ESG have received less attention than other sustainability issues. In light of recent events highlighting investment in health and safety, food and retail, will the "S" category become more of a priority?

Human capital has become an extremely important topic relative to physical capital. The spectrum of worker skills plays a role in the bargaining power of people within an organization.

How organizations treat their employees during a crisis can also have reputational damage on the brand and impact future recruitment. Indeed, from a consumer perspective, negative press can have an effect on the corporate image but I don't know if these indicators are enough to make S more of a priority. It comes down to whether companies only care about the bottom line or place importance on social issues.

What are your thoughts on last year's Statement on the Purpose of a Corporation from the US Business Roundtable? Did you welcome their comments?

My view is most companies are set up to act in the interest of their shareholders. But to add to this, not all shareholders are interested in only the bottom line or profits. Many shareholders are willing to accept lower profits if the company's ESG approach is aligned to their own values. A company should ask shareholders what are their main interests and goals. There is a distinction to be made between shareholders having a climate aware interest in the ability of the company to survive as the climate changes for profitability reasons, and caring directly about the environment itself.

In some instances, profits and sustainable business practices do not present a conflict and for that reason are not mutually exclusive but in the cases where they are, companies need to consult their shareholders on the level of trade-off they are willing to take.

And secondly, do you think that the COVID-19 crisis will drive a change in thinking about the purpose of a company?

I don't think the crisis will be a huge driver of change of purpose. There is movement already underway, partly attributable to the younger demographic of society such as younger shareholders, and I hope this continues. I hope to see more 'activist investors' pushing companies to factor in ESG considerations in to their business strategy.

It would be useful to have clarity over what fiduciary duty means. Shareholder interests are often broader than just gaining profits and until company management realise a broader mission, it is difficult to see any behavioural change.

The unveiling of the next new normal

"There is almost universal agreement among economists on a carbon tax. It would stimulate the private sector to generate energy alternatives."
Oliver Hart

Looking deeper in to the environmental pillar, how do you see learnings from the pandemic impacting the path to a lower-carbon future?

I am doubtful the pandemic will bring about real mindset change on climate change. Further, the problem with climate change is its intangible and futuristic nature, causing individuals to not take it seriously enough today.

Do you see carbon pricing as a viable solution and what do you think it will take to get governments to adopt such a policy?

There is wide-spread universal agreement among economists that a carbon tax could help tackle climate change. Climate change is the most extreme externality of all, that is, if one emits carbon, that will affect everyone, everywhere. The most efficient way to take that in to account is to tax at the source where carbon is emitted, however this is unfavourable with the general public. Economists believe a blanket carbon tax could stimulate the private sector to generate alternative forms of energy consumption.

Despite political and general public resistance on a carbon tax, other solutions could be government subsidies in green energy, investment in R&D or redistributing the proceeds back to increase individuals income.

Audience Q&A

Are you indicating that companies should internalize externalities by acting as if they are carbon pricing even if they are not and therefore making the trade-offs that way?

Yes, companies should consult their shareholders on addressing these trade-offs. Companies need to get ahead of the government. Governments should be acting on climate change by taking the lead and coordinating with other governments but this is not happening, in my opinion. The local governments, as well as companies, are left to address the issue. Action would ideally come from the Federal Government. As the system is not perfect by any means, local governments, companies and individuals have a part to play too.

Have some countries or regions in particular been successful and led by example?

Climate change is a worldwide problem, that needs addressing on a global level but also individual countries have to share the responsibility. The Paris Agreement is a great step forward, even though the US government withdrew from the program in 2017. As a substitute to government action, large multinational companies could play a significant role in driving matters forwards and raising greater awareness.

Has the COVID-19 crisis pushed the climate change agenda to the background?

Politically, the COVID-19 crisis could eclipse the climate crisis. On a corporate level, leaders may realize they are both crises and related in some ways. So lack of preparation for any future crisis could be costly to an organization.

To convince those in society more concerned about profits over climate change, would the set-up of a worldwide agency who rate companies and then tax the lowest ESG scoring companies solve the issue?

The governance of that is an issue, no-one has the authority to impose it. The worldwide rating is a good idea though because the more metrics at our disposal, the more pressure shareholders can place on companies to perform better.

What should be the response from the travel and tourism sectors to prevent future pandemics having such an impact on these hardest hit industries?

Companies would need to consider adapting their business model to pivot; for example restaurants providing a delivery service during the closure of the physical premises. Additionally as mentioned before, having reserves to cushion the financial strain during a pandemic.

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At UBS we pride ourselves on being a sustainable investing center of excellence. The 17 United Nations Global Goals are the way to a sustainable future. We've joined forces with BOTTLETOP, a sustainable accessories brand who created #TOGETHERBAND to raise awareness and funds for the goals.



17 goals, 17 bands. You get two bands – one to wear, one to share. And all the profits go to projects working

towards the goals. centers around the conviction that none of the goals, including SDG #13, Climate Action, can be achieved without collective, multi-sector action.

To read more about how we align Stewardship to long-term investing click [here](#)

To follow Michael Baldinger's latest views and insights on LinkedIn click [here](#)

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