IT'S TIME FOR SYSTEMIC CHANGE

by Saïd El-Khadraoui

The next legislature will be crucial in putting the transition in motion towards a low-carbon and circular economy and socially inclusive society and turn the many challenges into opportunities. There is no 'invisible hand' that will bring us to our destination, that's why the transition will have to be managed with everybody contributing. Multinationals will have to take responsibility and walk the talk.

Europe's social welfare model will not sustain over time if we do not succeed in reinventing the post-war social contract. There is an urgency in rethinking the relationship between those who govern, citizens and, indeed, the private sector, that has a crucial responsibility in achieving Europe's long-term societal objectives.

This is all the more true in a globalised world where profit-shifting by multinationals, tax avoidance and tax competition, and the rise of ever bigger digital companies that pay almost no taxes or social security contributions, undermines not only the financial viability of our social model and governments' capacity to prepare for the future by investing in innovation or in educating and reskilling people.

As this contributes to growing inequalities and unfairness, it also fuels discontent and erodes trust in our democratic system to the benefit of populist movements that promise easy solutions to complex questions. In an ageing Europe, at a time where the scale and the pace of technological breakthroughs add to the feeling of insecurity, this can become a toxic cocktail that could further divide and weaken Europe.

Global warming and its multi-facet consequences, on the other hand, are an even bigger existential threat to our way of life or, to put it less prosaically, to life on earth more generally. This forces us to fundamentally transform our society and economy over the next decades, sooner rather than later. The longer we wait, the higher the bill. It implies much more than reducing CO_2-emissions as other environmental challenges such as the dramatic loss of biodiversity and the ever more devouring appetite for virgin raw materials have to be addressed altogether. In a world with a growing population, hoping to climb up the social ladder, this is no small feat.

It's therefore time for systemic change, throughout and across all market sectors and value chains, from product design and business models to service provision and trade. Policymakers will have to rethink taxation, budgeting and public procurement. It entails also a change in mind-set and lifestyle: can we achieve a high level of quality of life whilst altering harmful consumption patterns defined by where and how we live, move and eat? It certainly also invites us to redefine progress or success. A state's GDP growth or a company's quarterly profits or market share expansion doesn't tell us a lot about the

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readiness to shift towards a climate-neutral and circular economy. Today, no single country has achieved a high human development within planetary boundaries. In the future, all should. The same applies to companies.

The next institutional cycle will be crucial in putting the transition in motion and turn the many challenges into opportunities. There is no 'invisible hand' that will bring us to our destination, a sustainable economy and socially inclusive society, leaving no one behind. The necessary frameworks and building blocks will have to be designed, a wide range of policy tools will have to be activated jointly at different levels, and governance models to bring everybody on board will have to be set up. More than others, multinationals will have to take responsibility and walk the talk.

I see three big policy priorities that will help multinationals to become more responsible in view of our challenges.

First, it starts with making them pay their fair share of taxes, by agreeing at EU-level on a minimum tax rate and make sure all sectors, including digital companies and platforms, contribute to finance public goods and services.

Secondly, EU-guidelines should ensure that social contributions get harmonised across forms of employment, an increasingly important issue as non-standard work is rising everywhere.

Thirdly, the transition towards a sustainable financial system should be accelerated by facilitating the integration of longer-term climate and other sustainability risks and opportunities into investment decisions in order to reorient capital flows and trigger a change in corporate behaviour. We see specialised sustainability rating agencies, index providers and companies themselves creating frameworks to report on social performance and environmental impact alongside the business results. The key challenge, however, is that the criteria used and the underlying data are rarely aligned, which detracts from comparability, creating confusion and affecting the credibility of such schemes. The new European Commission should therefore propose a Sustainable Finance action plan 2.0 to address these barriers, help to define what is green or sustainable and what is not, and further connect the world of finance to the sustainable one.

In addition, our efforts to be more strategic when it comes to industrial policy should be geared towards a low-carbon and circular future. Indeed, let us reflect on how our research and innovation funds, our investment policies and trade instruments can help our companies become stronger and adapt to changing circumstances, whilst we should develop further anticipatory policies that help regions, industrial sectors and individuals to adapt. Altogether these could be the building blocks for a new 'deal', 'social contract' or 'Sustainability Pact' that gives clarity to our citizens about the direction of travel, and fosters trust and confidence again in our future.

Disclaimer: The views expressed in this article are those of the author and do not necessarily correspond to those of the European Commission

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