



# How can business and financial policy get us out of the economic crisis and value greater societal resilience?

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## Summary

*Friends of Europe launched its new initiative on the role of the private sector in the European project, which will run through 2023 and culminate at the State of Europe high-level roundtable.*

*This Policy Insight was the first event of our three-step journey on the private sector as a shareholder – rather than stakeholder – in a Renewed Social Contract. Delving into what this change in responsibilities entails, this debate brought about the following key takeaways:*

- Public-private partnership and collaboration are a key component to moving forward along the road to a Renewed Social Contract. Progress will be achieved through a meaningful coalition of voices from all sectors and fields.
- Understanding the state of affairs and relations between interest groups is a part of the journey towards a fair, transparent and sustainable social model. A Renewed Social Contract – one that promotes progressive regulation – will be driven by a new, young generation that lives in a world different to the one we have known thus far.
- Hardwiring environmental responsibility into social and financial values will require fundamental changes to how people and businesses think and behave. Behavioural taxation is a possible avenue to incentivise behavioural change to protect the environment and promote social values.
- Reducing fossil fuel supply must be achieved in close coordination with demand reduction. Supply reduction before demand reduction will not be successful.
- Taxation is a valuable existing tool that can bring about rapid and wide transformation, as well as raise much needed government revenue after years of health, energy and geopolitical crises.
- Around half of all tax levied around the EU today is income tax, while 25% is consumption tax and just 10% is corporate tax.
- True societal resilience comes from solving problems collectively. It will be vital, as Europe looks for a Renewed Social Contract to pull us out of the economic crisis, that no question or issue be looked at in isolation.

## Reality check

Public-private partnerships will be critical to achieve progress along the road to a Renewed Social Contract. Instead of a top-down approach, there should be a coalition of voices, the event heard. “We need to co-create the future,” said **Eimear Creaven**, President for Western Europe at Mastercard.

This means having environmental, social and corporate governance (ESG) “hardwired” into society and into company governance, suggested moderator **Dharmendra Kanani**, Chief Operating Officer and Chief Spokesperson of Friends of Europe.

Progress and successful teamwork, however, means understanding the roles and responsibilities of different interest groups, rather than rushing into over-simplistic positions. There is sometimes “a lack of realism, a lack of sincerity about what can be achieved,” warned **Pierre Wunsch**, Governor of the National Bank of Belgium.

**“ Fossil fuel supply reduction before demand reduction would lead to unrest and revolution**

**Pierre Wunsch**, Governor of the National Bank of Belgium

In particular, he cautioned against supporting an immediate ban on financing oil and gas, saying this would simply push up prices and make a long-term clean energy transition harder to achieve. An “informed debate” about fossil fuel divestment, followed by democratic decisions, would be a better way to proceed.

Wunsch also warned that many people do not seem to understand the role of banks and businesses. “Firms are there to produce stuff, following the rules set by authorities,” he said. He agreed, however, that at the end of the day, firms also have to be good citizens.

Examining the role of authorities and markets will indeed be an important part of emerging from the economic crisis, but companies themselves have a major part to play, he said. This means there is “a bit of a role for the state” in promoting responsible behaviour, “but firms should also play their role. We are part of society, not observing at a far distance.”

This also means accepting criticism, Wunsch noted. “Whatever decision you take, there are going to be people who disagree with you.” He said the National Bank of Belgium itself had faced accusations of being “an unelected power” when it decided to communicate about the need for climate action.

When addressing the need to reduce fossil fuel use in order to meet climate objectives, Wunsch urged that supply reduction before demand reduction would lead to unrest and revolution.

## **Brave new generation**

Understanding the state of affairs and relations between interest groups is, however, only part of the struggle for a fair, transparent and sustainable social model. A Renewed Social Contract – one that promotes progressive regulation – will be driven by a new, young generation that lives in a world utterly different to the one we have

known thus far. As **Gerassimos Thomas**, European Commission Director-General for Taxation and Customs Union, put it, “I often tell my children they should be against everything I like to do.”

This young new generation spends an increasing amount of time online and has an unprecedented interest in the state of the planet – along with a growing distrust of established authorities, be they corporate or governmental.

Laura Sullivan, Executive Director of WeMove Europe, said this generation is asking questions about where and how corporate taxes are being spent. She said people who “care passionately about the survival of the European project” also want to know why the EU institutions seem to spend so much time engaging with corporate interests.

European officials cannot talk about “European values” at the same time as protecting jobs and investment in line with national interests, at the expense of lives and livelihoods in the rest of the world. “So much cynicism and euroscepticism is driven by a perceived corporate capture of Brussels.”

“We are all structured into a system from the 1970s. This has to change,” Sullivan argued. This change should include divesting from fossil fuels, she said, as well as rethinking the EU taxonomy to exclude investments in natural gas and nuclear energy.

Speaking from the audience, a representative of the **Cambridge Institute of Sustainability** argued that “business needs to be part of the future. It needs to work out what its values are.” Looking at the state of the climate today, the participant said it was clear that “fundamentally, we are living in a market failure. Business needs to massively deal with and invest in that issue.”

## In the DNA

Creaven said corporate behaviour should reflect strong leadership and a clear, sustainable vision. “Business is not going to do well in a fractured society, a failing climate,” she explained. Behaviour then means “doing well by doing good.”

Business has understood it has a role, she argued, and is now calling on policymakers to provide a level playing field.

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**Laura Sullivan**, Executive Director of WeMove Europe

“In the end, business needs to be incentivised to take risks, and there should be a conversation about how to do this,” she accepted. “But business is not defined simply by the bottom line.”

In the “convergence of crises” brought by COVID-19, Russia’s war in Ukraine, the cost of energy and the cost of living, “this is absolutely the moment to ask: what is our role?” she said.

“We have been very impressed with the direction Europe has taken in managing these crises. We have a real opportunity to take a strong role, for instance, in the digitalisation of Europe and protection from cyber-attacks.”

“Businesses should reflect on the businesses they provide,” Creaven said. “As Mastercard, for instance, we can educate consumers.”

“This is not just about philanthropy. It is about doing what is good for society,” she said. “It is really important we make this the DNA of companies.”

## Taxing times

Hardwiring environmental responsibility into social and financial values will require fundamental changes to how people think and behave. With this in mind, behavioural taxes could help protect the environment and promote social values.

“In the Commission, we are planning a major reform of corporate taxation. This will include a focus on behavioural taxes and help us to move away from fossil fuels,” said Thomas.

“We have proof that taxation can change behaviour,” he explained, pointing to a “massive” switch in consumer habits when tax on cigarettes was increased in the EU a decade ago. Overall, however, “when it comes to the environment, we have not changed the tax burden.”

“There is obviously an effort to be made at government level to help people who are worrying about sustainability issues like water and waste,” Thomas said. “We can also complement the changing of behaviour through behavioural taxes.”

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**Gerassimos Thomas**, European Commission Director General for Taxation and Customs Union

Taxation can bring about change quickly, as well as raise sorely needed government revenue after years of health, energy and geopolitical crises, he said. About half of all tax levied around the EU today is income tax, compared to 25% in consumption tax and just 10% in corporate tax.

## A bright future, perhaps

As Europe lives through a pandemic, foreign conflict, a food crisis and an energy crisis, it seems the new norm for leadership is to be prepared to manage crises.

Striking a balance between responsibility and speed will not be easy, the event heard. Finding the way to a strong Renewed Social Contract will take time but faced with a climate crisis and an increasing digital divide between generation, time is running out.

Participants heard from Kanani that there seemed to be “a magnificent awakening happening in the private sector”, alongside a realisation that justice is everybody’s issue and cannot be handed over to policymakers, businesses or civil society alone.

The mismatch between old and new expectations, however, sees politicians still acting as if they had to be reverential towards companies in order to see economic growth and prevent business from fleeing offshore.

True societal resilience comes from trying to solve problems together. It will be vital, as Europe looks for a Renewed Social Contract to pull us out of the economic crisis, and no question or issue should be looked at in isolation.

Overall, a key message was to ask ourselves: how do we support youth and the future? Because our children do not have a future if we do not have a planet.



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