



Fondazione
Giangiacomo
Feltrinelli

A change of era

**Institutions and communities
at capitalism's crossroads**

**A cura di
Andrea Califano**

Utopie / 91
Cittadinanza Europea

UTOPIE

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Viale Pasubio 5, 20154 Milano (MI)

www.fondazionefeltrinelli.it

ISBN 978-88-6835-365-0

Prima edizione digitale: giugno 2019

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About

Are we facing a change of era? This is the question that opened the the 2019 edition of FeltrinelliCamp, entitled *Rethinking capitalism: from globalization to humanization*. Ten years of economic crisis urge to deal with the link between globalization and sustainability: is it a problematic dichotomy? The crisis has determined a step backwards in people's living conditions, within a global context where economic relations, the availability of tools for managing them, the social equilibrium and means of production and consumption have completely transformed from the balance they had gradually found in the past decades.

Such as the previous one, this edition welcomed a hundred of carefully selected researchers, young scholars, activists and practitioners from many parts of the world for a two-day intensive workshop. This volume came out from this important work.

Edited by Andrea Califano, it contains, in addition to the thematic table reports, texts by Marcio Pochmann, Chiara Saraceno, Andrea Roventini, Pavan Sukhdev, Marta Santamaría Belda, Bruno Frère & Laurent Gardin.

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A change of era

Institutions and communities at capitalism's crossroads

Preface – *Andrea Califano*

Are we facing a change of era? And how are we supposed to deal with it? Such were the questions raised by Marcio Pochmann in his opening lecture to *FeltrinelliCamp 2019 – Rethinking capitalism: from globalization to humanization*, which welcomed a hundred of carefully selected researchers, young scholars, activists and practitioners from many parts of the world for a two-day intensive workshop. The initiative comes from Fondazione Giangiacomo Feltrinelli's effort to put forward the ambitious goal of a multifaceted, transdisciplinary, intergenerational reflection on capitalism, its crisis, the flaws of the neoliberal international configuration of it (which goes under the name of “globalization”), and, most importantly, the ways forward.

This volume is one of the many outcomes of the productive two days we had in Milan. Following the introduction from Marcio Pochmann, which sets the framework for the rest of the contributions, different participants are given a space to explore and reflect on the discussions. This preface, in turn, aims to briefly outline the rationale and the organization behind the conception of FeltrinelliCamp.

More than ten years of deep global economic crisis provide evidence and support to the thesis that it would be naïve and insufficient to describe the present moment as an era of changes: as Marcio Pochmann points out, we are in fact going through a proper change of era. The world is taking a completely new shape: societies, technologies, institutions, the economy are facing revolution not just evolution, and “the distance in between the

present time and the horizon of future opportunities is getting shorter and shorter”. Such a period cannot be free from conflicts, strains, uncertainties and unbalances. This book attempts to capture them, and to analyse the different reactions that they spur: unawareness of the scope of the whole process; conservative or regressive opposition to it; exploitation of the opportunities that it gives. Particularly, we focus on the latter of the three attitudes, as we eventually aim, consistently with Fondazione Feltrinelli’s mission, at drawing a progressive policy agenda.

Incidentally, it may be noticed that this agenda shall be utterly innovative: for one thing, as progressive forces are currently in terribly troubled waters. As argued along the chapters of this volume – and as emerging from the reports of the working groups of the mentioned two-day meeting, also included in this book – this testifies a failure of progressive forces in interpreting the complex capitalism’s configuration of globalization. Perhaps, we could insist with the proposed interpretative key: that is, that these forces have read our present time as an era of changes, failing to see that it was actually a change of era. Workers, middle classes, the dispossessed, those at the margin of the system (a system which tends to marginalize more and more people), disoriented from this interpretative shortcomings, little by little abandoned their support for progressive forces and swept into the hegemony of a reactionary narrative that was able to provide a counter-reading of globalization. Better said, a narrative that was able to exploit the suffering of the large majority of world populations (including this time the vast majority of western industrialized countries) to its advantage, providing *false* scapegoats and *regressive* solutions to a grim state of affairs which is all but *real*.

Simplifying a complex matter, we could argue that the latest episodes of this success of the regressive forces (to name just a few: the electoral success of Trump, Bolsonaro, Le Pen, Salvini, the vote for the Tories’ Brexit) are due to a clear-cut misleading alternative. On the one hand, we have a scenario in

which civil and political rights are guaranteed and promoted, but democracy is emptied of its full meaning, and preserved merely as a set of procedures. This situation is perceived as inextricably connected with *this* globalization, its institutions and its ideology, and, most notably, no longer bearable. On the other hand, the explicit perspective of an illiberal democracy, ready to deny civil and political rights – especially to excluded minorities – in the expectation that this could bring back some sort of “control” by the many on their material living conditions. It is a deadly game, which claims that we have eventually reached an actual crisis of democracy, after several years of economic and social crisis, i.e. the worsening of the living conditions of the majorities and the narrowing of each one of us’ future opportunities.

It also means, and this is a pivotal underlying aspect of the *FeltrinelliCamp* and this volume, that the many features of the crisis we are going through are clearly interconnected. The environmental, economic, social crises eventually turned political, i.e. a crisis of democracy. From this viewpoint, the change of era becomes then a necessity, as unsustainability has become the paramount character of globalization; it becomes a necessity since what is generally called “crisis” looks more like a physiological feature of the system, rather than pathology. By reading our present times as a process of change of era, it becomes clear that our pressing necessity is to rethink capitalism – at the very least, as one could argue that the economic system should be re-built on completely different foundations.

During the current research season, the Fondazione Feltrinelli has tried to stimulate a sharing of theoretical views, practices and policy recommendations along these lines, culminating in the event *FeltrinelliCamp 2019 – Rethinking capitalism: from globalization to humanization* which this volume accounts for. The event epitomizes this double-sided approach, as the theoretical and the practical dimension are structurally intertwined: as it emerges from the reports included in this volume, the participants’ different backgrounds and fields of activity (including the academia, social

movements, firms and cooperatives) contributed in a multifaceted way both to the theoretical challenge and the practical one.

With respect to the former, as an example we can to highlight the premises that underlie the papers by Andrea Roventini and Pavan Sukhdev: in order to rethink the economic system, hence framing a new social contract, we have to put into question the economic theory which has been dominant in the academia for the past few decades and which has been systematically feeding the policy arena – as well as, consciously or not, each of our minds. If nothing else, because it only contemplates exogenous shocks as potential perturbation of an otherwise stable natural equilibrium, or a situation tending to this natural equilibrium. What is more, this theory has been the basis for the policy choices which shaped the features of the globalized economic system. This implies, for instance, neglecting that in the “real” world the perfect competition that students find in the economics textbooks leave room to large concentrations of capitals, able to heavily influence the policy agenda; or that big firms and investment funds exercise power and control on employment, governance, production, consumption and distribution. Furthermore, this extreme concentration of capitals faces an extreme fragmentation of labour, making the latter weaker and thus spurring more inequalities and more “unsustainabilities”. This scenario represents a real threat to democracy’s promises to bring a more equitable social environment, inclusion and access for everyone to fundamental resources and rights.

On the other hand, we have the “practice of rethinking”, which has also been at the core of Fondazione Feltrinelli research season and of the event that paved the way for this book. Given the involvement of practitioners, activists, policy makers that the Fondazione has stimulated, the working groups of the two-day workshop *From globalization to humanization* came out with concrete policy proposals grounded on the experiences of the participants, who in some cases dedicate their life to bring about some

change, i.e. they fall in the group of those who strive to exploit the opportunities given by the change of era. Thus, three out of eight of the working groups' reports are included in the third section of the volume, devoted to grassroots movements and cooperation. They add to the arguments raised by Bruno Frère in the paper, which is also part of this section. The author sheds light on the contradiction inherent to “niches of resistance” which are struggling against the unsustainabilities of the global system – introducing relief in our everyday life – in fact without questioning the structural features of the system from a macro point of view, which would entail a structural organic alternative. The author mentions the “libertarian grammar” of these solidarity economies as a limit which tends to prevent the emergence of a political institution – in the broad meaning of the term – able to speak in the name of all of these micro experiences, synthesising them and therefore promoting an agenda for the changing of the system.

Perhaps, and paradoxically to some extent, the key for solving this ambiguity lies in the role of the State and public actors in general. Put it simply, they may get in the way of these experiences, or they may stand on their side, enabling their potentialities. “Enable” is thus the key word for the dedicated section (Part III) of the volume.

Yet, we have not neglected the more active perspective that public actors can assume, and the first part (Part I) of the volume looks at them when they “Invest”. This is, of course, not limited to economic investment: rather, it aims at shedding light on the public investment on a better society in general terms. The investigation, once again, starts from acknowledging constraints and opportunities posed by the global system and the change of era. Following closely the title of the working groups' reports included in this part of the book, the goal is to understand how the State and supranational institutions can frame a progressive policy agenda – which has to, first of all, tackle inequalities – given the environment of a globalized

economy and international society. There is a more fundamental question, however, to be answered beforehand: *Is contrasting inequalities compatible with capitalism?* Chiara Saraceno argues in favour of a new welfare State based on pre-distributive policies, aimed at preventing the formation of large concentrations of capitals and other unbalances upstream the productive process, in order to reduce the necessity of redistributive policies downstream, which face greater political and structural resistance, especially in the context of globalization. Political resistance is a key factor to consider when reading the policy recommendations raised by Andrea Roventini in the following piece, in which the need for a renewed interventionist approach by public agents in the face of the markets clearly stands out.

Together with the investing and enabling role of public entities, another fundamental task we have pointed out concerns the need to “Regulate” (Part II of the volume). The environmental issue is emblematic on this – thus it underlies both the contributions to this section: we cannot overlook the fact that 100 large companies are responsible for more than 70% of the Co2 global emissions, Pavan Sukhdev warns us. He then advocates for a regulating approach which should go far beyond the simple imposition of some counterweights, pushing instead towards a thoroughly new conceptual framework for the “companies of 2020”; a framework in which firms are obliged to produce surplus of all types of capital, including financial, human and natural capital. The latter is at the core of the paper by Marta Santamaria. What we found out to be shared among all the working groups set up for the *Rethinking capitalism* event was precisely the relation between public and private agents: it is at the core of this second section of the present volume as well, also underlying the included reports.

The reports summarizing the activities of the eight working groups and gathered in this book point to the fundamental issues mentioned in this preface – and to many more, raising policy recommendations to deal with the challenges which had emerged from the brainstorming. Together with

the papers compiled by the keynote figures which took part to the *Rethinking capitalism* research framework (for the years 2018-2019) of the Fondazione Feltrinelli, they draw – this is our aspiration – a coherent and comprehensive agenda up to the challenge of the change of era that we are going through.

The network of institutions involved in the *FeltrinelliCamp 2019 – Rethinking Capitalism: from globalization to humanization*:

ACMOS, Altreconomia, Ashurst LLP, Ateliermob, Banca d'Italia, Birkbeck College, Cassa Depositi e Prestiti, Centro Studi Industria Leggera, Comune di Milano, Doc Servizi, ENI, ETH Zurich, European Commission, European Space Policy Institute, Faircoop, FAO – United Nations, Federal University Bahia, Federazione Ialiana Trasposti (FIT-CISL), Fivelex law firm, Fondazione Basso, Fondazione Eloy Alfaro, Fondazione Enrico Mattei, Fondazione Giangiacomo Feltrinelli, Fondazione Housing Sociale, Fondazione Matera Basilicata 2019, Forum Disuguaglianze e Diversità, GIST Advisory, Glovo, IES Abroad, Institute for Innovation and Public Purpose (IIPP – UCL), Istituto per l'Analisi delle Politiche Pubbliche (INAPP), Institute for Renewable Energy, Institute for Research and Innovation – Centre Pompidou, Instituto de Pensamiento Politico y Economico (IPPE), International University College Torino, LUISS Guido Carli, NEMO – New Economy in the Mountain, P'ARCNOUVEAU, Politecnico Milano, Pompeu Fabra University, Pricefy.io, Redes da Maré, Sao Paulo State Assembly, Sapienza Università di Roma, Scuola Normale Superiore, Scuola Superiore Sant'Anna, Senza Peli sulla Lingua, School of Oriental and African Studies (SOAS), State University of Campinas, Technical University Dresden, Tortuga, Università Bocconi, Università Ca' Foscari Venezia, Università Carlo Bo Urbino, Università Cattolica Milano, Università Cattolica Piacenza, Università del Salento, Università di Bari, Università di Bologna, Università di Cagliari, Università di Catania, Università di Firenze, Università di Pavia, Università di Perugia, Università di Pisa, Università di Udine, Università IUAV Venezia, Università Milano Bicocca, Università Statale Milano, University of

Geneva, University of Oxford, University of São Paulo, Urban Center Torino, Volt, World Food Programme (UN), WWF International.

Faced with the current change of era – *Marcio Pochmann*

No society can remain the same over time, as all societies are subject to profound transformations, jointly and simultaneously, of their infrastructure (economic base), structure (classes and social class segments) and superstructure (institutions, values and rules). This historical circumstance, when it is observed, is what may be termed a change of era.

Generally, a change of era results from processes associated to the acceleration of historical time, whenever the gap that separates the space of presently experienced horizons of expectation and the possibilities of the future is sensibly reduced. The rapprochement between these two distinct time frames tends to happen only rarely, for it depends on the manifestation of a complex set of occurrences that, in an concerted and concentrated manner, provokes the transition from one epoch to another.

Changes of era are not mono-causal phenomena. It is possible, however, that profound technological progress may influence such shifts, given technology's far-reaching consequences to society as a whole. Be it in the political form of organising and distributing economic production or in social and cultural behaviour, new interactions among people and institutions are notable precisely in that they eventually modify one's very ways of life and human conduct more generally.

The possibility of considering structural change and stasis in societies tethered to given epochs both authorises and gives sense to the search for a comprehensive understanding of the social, cultural, political and economic

dimensions of these momentous shifts throughout human history. From this possibility follows the urgency of reflecting on the historical processes currently in motion, which stem from the acceleration of historical time. The consequences of these processes appear to point to a division of capitalist societies among at least three major categories, themselves flagrantly heterogeneous and engaged in institutional disputes over the necessary ascension of novel categories and the resistance of the dysfunctional old ones.

On the one hand, groups of people who are disconnected from the conscience that they are experiencing the consequences of a present bearing the imprint of an epochal shift. On the other, past institutions championed by groups who oppose this shift, reacting to it through practices aiming at the permanence of past ways of life. Finally, the surfacing of a new institutionality, called for by more conscious groups who are attuned to the possible use of the present horizon of expectations towards future-oriented opportunities.

The consolidation of the possible sense of this crystallising new epoch depends on the primacy of the forms of domination adopted among groups within societies as a whole. Its proper understanding, however, requires discerning the course of accelerated historical time, in addition to questioning the validity of traditional concepts to interpreting this epochal change and acting upon it.

From an essayist perspective, it is thus necessary first to enunciate certain major aspects of the current change of era, and to put forth the evidence of definitive ruptures with both distant and recent pasts. Subsequently, possible actions and reactions must be emphasised in order to grapple with the emergence of a new epoch in the beginning of the 21st century.

The meaning of a change of era

Studies on great historical transformations point to the 18th century as a generally relevant moment on the transition from the old and lasting agrarian society to the new, modern, urban and industrial society. The culmination of a complex set of events at this historical juncture set in motion a change of era due to the acceleration of present time (experiential space), which fostered the re-dimensioning of human aspirations and objectives for the future (horizon of expectation and opportunity as conditioned by progress)

With this shift, the emergence of enlightenment Reason came to be predominant, overcoming the bounds of a perspective of the future which was understood to be gifted or otherwise controlled by divine providence (religious thought). This signals a new conceptuality, based on the determination of the future by human actions in the present.

To a large extent, the manifestation of a nascent capitalism of global dimensions, anticipated by naval mercantilism and colonial discoveries, enabled the spread of personal, corporate and governmental enrichment as an ethical motivation. In addition to this, arose the economic perspective that progress (generally) and technological advancement (in particular) would provide the basic dynamic of wealth accumulation after the first and second industrial and technological revolutions, particularly through competition over the scale of commodity production and market functions between the mid 17th century and the latter part of the 19th century.

Further still, this epochal shift contaminated also the social, cultural and political dimensions, enacting important changes to the rhythm of human life through the mechanisation and automation of work, and through the general acceleration and intensification of daily life in urban industrial society. These processes were also associated with the appearance of new societal actors which introduced new elements to the cultural processes of sociality, interfering with the political scene and with collective governance regimes.

Industrialisation has proved fundamental to the constitution of modern urban societies. There is no record of contemporary sovereignty and development predicated solely on the lone efficiency of the mining, agrarian or livestock industries, or on the strength of financial systems, or even on the consistency of the service economy. The available evidence on industrialisation thus allows for the consideration of both the potentialities and limitations of the material development of contemporary societies, be they in the global periphery or in the dynamic centre of global capitalism.

‘Dynamic centre’ means those territorial spaces of collective governance able to secure hegemony through the simultaneous possession of a strong international currency, capacity for technological production and diffusion and vigorous armed forces. Around such hegemony, global capitalist development continues to actualise itself as an unequal and concerted system.

It is through industrialisation and its negation, deindustrialisation, that each society tends to express implicit or explicitly its internal and external economic determinations over a territorial space of sovereign collective governance and material development. Simultaneously, the movements of industrialisation and deindustrialisation reveal a reinforced constitution and development of bourgeois power and its distinct fragments within capitalist society.

Just as an increase in the number of industrial ventures does not necessarily correspond to industrialisation, a relative decrease in industrial production does not necessarily point to effective deindustrialisation. This is because the process of industrialisation results from a revolution internal to the productive forces, which are henceforth subject to industrial capital’s dynamics of domination.

Productive forces, in this sense, are not limited to the use of machines in the work process, which are responsible for the growth of excess production over and above that of the work force, but also comprise the modes of their

subjection to the dynamics of capitalist accumulation. This refers to the push towards overcoming hurdles to accumulation resulting from the technical structure of capital itself.

Thus the major power of the industrial bourgeoisie, as one segment of the set of dominant classes within capitalist development, consolidates itself. The distinctive faces of capital (commercial, financial, agrarian, industrial, among others) within each society result, generally, from the existence of a dominant form of determination over processes of capitalist accumulation.

Through the lenses of industrial capital's self-determination, one sees that the constitution of the set of productive goods establish the bases upon which capitalist accumulation may break the developmental barriers of productive forces. Were it not so, industry could certainly exist and even grow quantitatively and in number of employed workers without necessarily unleashing a process of industrialisation capable of revolutionising the whole of the productive structure.

In this sense, one might give the example of an industry subjected to other constitutive parcels of capital, such as those of mineral and vegetal extraction, agribusiness, trade (both internal and external), or those of banks and financial institutions. Within the dominant class, the industrial bourgeoisie figures as a minor fraction of capitalist power.

However, the constitution of capitalist power does not limit itself to the economic area in its relations of production and in the social division of labour. It extends also to the material and ideological forces that intermingle forms of coercion and persuasion in the dispute over the hegemonic prerogative of determining the paths of development in any given era.

As such, the political consent that obtains from domination within different fractions of the dominant class is what allows for the organisation of a ruling historical bloc over society as a whole. Consequently, the politico-social space constitutive of capitalist accumulation reveals both the ideological and repressive dimensions of the hegemonic fraction which rules

over the dominant class.

Similarly, in each concrete historical process, economic and political relations are produced and reproduced within the spheres of struggle and domination intrinsic to development in a given historical epoch. Capital's forms of valorisation are thus simultaneously implicated in capital's own contradictions, inherited through political estrangement and subordination.

In the initial ventures of capitalist industrial expansion, one can discern the necessary presence of previous conditions for its expansion, such as that of the existence of a social division of labour within the expansion of the mercantile economy. This can be observed during the 18th century, for instance, with the process of industrialisation, which expanded from England in temporally and locally particularised fashion, eventually encompassing the entire world.

Industrial capital's tendency of dominating the set of productive forces took distinct shapes in the process of revolutionising productive structures in different parts of the world. As a consequence of these myriad shapes, industrialisation can be said to have taken the general forms of original, delayed and late development.

As such, two main references impose themselves. The first relates to the standard of industrialisation in relation to the previous conditions upon which it has constituted itself; the second relates to its continuity or otherwise, which may result in deindustrialisation.

In this sense, deindustrialisation reveals the exhaustion of industrial capital's capacity for self-determination from within the totality of productive forces, which does not mean strictly the absence of industry. At any rate, the ascension of different fractions of the dominant class - such as, for instance, financial, agrarian, commercial or service capital - may lead to deindustrialisation insofar as they succeed in subordinating industry to their whims.

Therefore, the phenomenon of deindustrialisation could only occur where

industrial capital's dominance over the whole of productive forces had been established thoroughly in a previous phase of development. The existence of barriers to the continuous subordination of productive forces to industrial capital would delay the greater progress of capitalist accumulation in favour of different orders of determination.

This is why the relative decrease in the participation of the transformation industry in total employment or total national production does not in itself represent deindustrialisation. The decline in industrial employment coefficients or in Gross Domestic Product (GDP) may in reality suggest more complex questions, such as the outsourcing of manufacturing, or further industrial specialisation within global value chains during a change of era.

If industrial capital retains its position as dominant subject within the whole of productive forces, deindustrialisation would not necessarily be prevalent in the country. The newly emerging conditions of manufacturing outsourcing, along with the predominant expansion of productive services or the growth of the immaterial economy indicate rather the presence of ruptures in the process of inter-capitalist competition in favour of one or more fractions of capital or of different parts of the historical politico-cultural governance bloc.

Increasing specialisation of manufacture within integrated global value chains opens up the possibility that, under certain conditions, industrial capital may maintain its dominance over the control of service exports, the spatial dislocation of lower value-added products and over the internalisation of technical progress. More so than the manifestation of new international divisions of labour, deindustrialisation is thereby associated with the destruction of the previous productive ecosystem, with the corresponding devaluation of industrial capital's commandeering function.

Deindustrialisation, however, has not manifested itself evenly, notwithstanding the evident advance of the immaterial economy, propelled

forward fundamentally by the outsourcing of productive systems. From the vantage point of so-called post-industrial society, it is clear that wealth tends to associate itself to knowledge and its systematisation, with increasing importance being accrued to social segments seemingly at odds with the traditional dominant class.

That said, the situation in which this scenario materialises tends to be played out among individuals, which dims the perception of class struggle when considered in tandem with the changes to the prevalent means of production. With the spread of the immaterial economy, mounting gains in productivity surface throughout the usual division of labour by means of new information and communication technologies (ICTs), which allow for the intensification and extension of labour time beyond its conventionally designated place (farm, building site, factory, office, among others).

The portable nature of the work that goes into immaterial production imposes itself as the end of the strict separation between work time and non-work time, observed especially in urban, industrial society. In a certain sense, the immaterial economy is similar to traditional agrarian society, which generally did not distinguish between work time and non-work time, for this latter epoch's mostly material labour was generally confined to the household as basic economic unit.

This is why there is now a movement towards stripping away social and labour rights that had been previously secured, particularly over the peak historical moment of urban and industrial society. In contemporary times, changes to the nature of work under the immaterial economy have been followed suit by the disintegration of traditional institutions from the past epoch, particularly those of unionised labour and political parties.

Notwithstanding the signs of estrangement in the relations entertained by capital and immaterial labour, alienation seems to persist, with disinterest and disillusion caused by the individualisation of labour and by mounting pressures toward lifelong learning, a phenomenon that accentuates the role

of corporate universities. In this context of epochal change, the set of policies designed to promote and advance a set of modern services tends to become ever more prominent.

Furthermore, the development of labour under immaterial economic conditions tends to associate itself with new information and communication technologies, stimulating the dissociation of labour from its set times and spaces. This new portability of labour brought about by the new ICTs forces workers to stay connected and available throughout nearly the entire day. Social and labour rights securing weekly rest, vacations and days off are retracted due to these new standards of labour, blurring the division between labour and non-labour time and space.

The unprecedented portability of immaterial labour increases both the intensity of labour and its time expenditure, with work hours increasingly comparable to those of workers prior to the 20th century. In this sense, the dispute over the workforce finds its basis on the marked connection among immaterial labour, instrumental knowledge of the new ICTs and their profound lack of regulation and control.

Access to and diffusion of knowledge are henceforth demanded in the form of lifelong education, while higher education becomes the new standard of basic literacy. This situation, however, presupposes the transposition of the traditional educational system which predominates under urban and industrial economies, which fundamentally demanded that children and teenagers, but only some young people, have access to education (universal basic education, selective higher education).

In the same way, one ought not to ignore how the nature of labour under the immaterial is associated with the type of development presupposed by the service economy. It bears emphasising that where primary and secondary activities retain their importance, demand for services related to production, logistics, distribution, social responsibility, etc., relates positively with the quality and improvement of employment.

Conversely, the debility of both the primary and secondary sectors reveals that the advancement of work posts is associated with an increase in personal services and simple activities, in which education and specialised knowledge do not necessarily participate. As such, remuneration for such services tends to be low, leading to unequal and stagnant wages.

It bears noting that the advancement of historical novelty signalled by the predominance of the service sector in the tendency towards economic outsourcing does not yet allow for the overcoming of the ancient by the modern. The materiality of marked inequality appears to suggest the extent to which the reproduction of the long past opposes itself to modernity, seeking to reassert its dominance through poverty and expelling segments of society away from the ever more enriched economies of the immaterial.

What to do when faced with change of era

The diversity and simultaneity of events since the end of the 20th century appear to articulate and approximate, to ever greater degrees, the present and the new horizons of future perspectives. In addition to profound technological advancement, the end of the hiatus to globalisation between the First World War (1914) and the Iran-Iraq conflict (1980), leading to the renewal of the second globalisation, have led to the consolidation of a new epochal shift.

There are ever fewer characteristics of the old urban and industrial society left in the wake of the unprecedented advancement of the service society. The forms of production and distribution of an industrial modernity based on palpable and concrete commodities and on material, subjugated labour have been largely replaced by a post-material mode of generation and repartition, intensified in turn by technological advancement, spatialisation and connectivity in the world.

In lieu of scarcity, abundance has been inscribed unto the new economic, social and political order of *big data*, leading to a questioning of the

neoclassical law of diminishing marginal returns - and even to its inversion as *increasing* marginal returns -, and thus also to the dysfunction of traditional models of capitalist competition. The centrality of work, though no less a centrality, is dislocated from its classical objectivity towards subjectivity, a subjectivity which, as yet unregulated, captures limitless individualities. The plurality that seems to subsist in the public sphere finds in the erasure of traditional collective class action a new paradigm, that of the masses who live and reproduce precariously within the growing market of surplus-populations among accumulated wealth, both new and old.

In this unstable context arise new forms of presenting the lived experience of the service society. These forms displace the traditional modes of representation associated with urban and industrial societies. The new, however uncertain, is still being constructed.

For over 15 thousand years the centrality of material work in agrarian society was engaged in the game of Nature, whose resources came fundamentally from extraction. Given existing techniques, marginal returns were decreasing and productivity low, which demanded the expansion of the workforce in order to increase production. For this reason, women took on the fundamental role of human reproduction, which meant gestating 10 or more children over a lifespan.

The association between territorial extension and a growing population safeguarded the possibility of greater participation in global production, notwithstanding rudimentary technical conditions which resulted in low productivity and decreasing returns. Even so, until 1820, for instance, China and the old Indies accounted for nearly half the global GDP, as they combined large territories and notable populations. It bears reminding that, in agrarian society, the measure of wealth was land and the role of dominant class was exercised by rural oligarchies.

Starting roughly from the 18th century, material work was predominantly urban and industrial. The mechanisation of production, along

with the further division and specialisation of labour, allowed for increasing gains in productivity. The game against Nature fabricated by the man-machine relation expressed the novelty of employing different forms of energy in order to transform the natural environment in an image of work as intensive technical refashioning.

With this shift, nations lacking in territory and population, such as England, managed to sprout large scale manufacturing plants, industrialising beyond the necessities of internal subsistence. The exportation of surplus generated the International Division of Labour between those who produce primary goods and those who supply industrial commodities. In this refashioning of societies in the bipolar image of a productive centre and a productive periphery, the measurement of wealth came to be dominated by currency (gold, money, financial titles) and by the capitalist class in its myriad incarnations (agrarian capital, industrial, commercial, financial, etc.)

Since the end of the 20th century, a new conception of societal structure has been put forth. Another international division of labour can be glimpsed, one associated with the development of those productive forces based on agriculture, farming, mining, manufacture and civil construction in tandem with the expansion of the service industry.

As the tertiary activities in the economy have been largely heterogeneous, the quality and intensity of immaterial labour depend directly on the latter's association with the primary and secondary sectors (respectively, agriculture and farming; industry and civil construction). The more fragile the primary and secondary activities, the more importance accrues to the set of simple services, such as cleaning and conservation, security, domestic care, among others. Conversely, the more robust the former sectors, the more substantive advancement towards nobler services associated with knowledge (generation, production and distribution).

This new phase of development, as it defines the current change of era, depends on the vigorousness of new and continued investment on

technology and education. As such, it is clear that the formerly hegemonic pillars of unified thought (the United States as arbiter of the balance of power, an international financial market premised on the US dollar and sustained on derivatives; unregulated markets and weak States) have been surpassed and are now incapable of providing a sustained future to a population continuously exposed to the ever present reproduction of a past defined by profound inequality and environmental destruction.

In these terms, one may note the extent to which the reorganisation of the world after the global 2008 crisis presupposes a new functional structure, one that demands expanded coordination and leadership. Countries with great territorial extensions and significant populations can contribute substantively to this new structure, seeing as the tripartite structure of the new global economic expansion consists in 1) a new division of the world premised on poli-centrism; 2) the far-reaching revolution of the technical-scientific bases of production; and 3) the superseding of environmentally unsustainable production and consumption patterns.

Adjusting to these global transformations requires a return to supranational cooperation and integration on renewed bases. One can envisage starting with the overcoming of the old international division of labour, rooted in the reproduction of the past (low commodity and service prices corresponding to reduced technological added-value, precarious labour and long, poorly remunerated workdays). With a change such as this, development in the midst of a change of era may become effectively global, ensuring that the wealth of some does not necessarily translate into the poverty of many.

Final remarks

The main aspects of the present change of era and corresponding acceleration of historical time reveal the bedrock of a transition between distinct societal organisational forms. The brief excursus into past material

economies, first agrarian and then urban and industrial, helps elucidate the emerging dynamics of the immaterial economy and understand the transition to post-industrial society.

Because of this epochal shift, productive outsourcing happens in a distinct manner from that observed during the passage from agrarian society to industrial and urban society. In these two latter societies, the product of labour generated a materiality represented in tangible commodities (cars, clothes, food, etc.), in contradistinction to the present immaterial economy, in which labour, concentrated in the service sector, results from producing the intangible.

In this context of generalised technological advancement, particularly in information and communication, a new concept of class emerges. With the new centrality of immaterial labour, rooted in innovative forms of increasing productivity, and its redefinition of society into a post-industrial moment, deregulation allows for the intensification of labour - be it due to an increase of *in loco* productivity, owed to modern managerial skills, or to the *de facto* extension of working hours.

Beyond the specific locality of labour, work becomes portable, connected to new information and communication technologies (mobile phone, personal computer, among others), and a stretching of labouring times is observed. The end of the work time and non-work time division inherited from urban and industrial society leads to sensibly higher wealth production, as it leads to longer work hours and labour intensification.

The undeniable increase of the degree of workforce exploitation results from the greater capture of involuntary, non-remunerated work. Beside the classic pressure implicit in the capital-work relation, the worker in the immaterial economy finds themselves subject to the unleashed pressure contained in the client-driven relation characteristic of the ever more individualised service economy.

This scenario seems to occur under a general frame of widespread

alienation, which reproduces itself as if a veil were covering the true visage of intense epochal change. This change and its concomitant veiling strengthen both the new increase in productivity caused by the extension of the work day and by the renewed intensity of labour through occupational connectivity, and the reproduction of past poverty amid the unprecedented wealth of the present.

For now, timid political opposition reveals the extent to which immaterial labour remains unattended to by adequate institutions bent on overcoming existing hurdles immanent to traditional models of representation of workers' interests, as well as the erosion of social and labour rights. The characteristics of this change of era require adequate understanding in order to anticipate the very capacity for human interaction with and intervention on the real acceleration of historical time.

Failing such understanding, the prevalent tendency points towards anachronistic projections and practices incapable of overcoming the hurdles of the present and thereby in danger of reproducing the past - the rearguard of backwardness: no longer the vanguard of the present, in sync with the implications of the change of era.

Part I – to INVEST

Is contrasting inequality compatible with capitalism?

- *Chiara Saraceno*

Premise

The promise of post WWII keynesianism in Europe was to strike a balance between capitalism, democracy and the reduction of unacceptable inequalities, through the dual means of full employment and the welfare state.

This promise was not fully realized even during the “Glorious Thirty Years” of fully-fledged welfare state development, although some countries were more successful than others in nearing it. The reasons are more than one: full employment was intended mainly as full male employment, with strong expectations concerning the gender division of paid and unpaid work and the functioning of households and families that were based on de facto gender inequality. Poverty did not disappear and social mobility chances remained strongly linked to ascriptive features, such as the social characteristics of one’s family of origin.

The shock of the oil crisis and its impact on developed economies and labour markets, however, undermined also the promise of full male employment, with the success of neo-liberist approaches to the crisis further weakening the capacity of the labor market to grant decent wages for all workers and the legitimization of the welfare state as an inequality rebalancing instrument. In more recent decades, the mix of phenomena which go under the heading of financialization of the economy and

footloose and “extractive” capitalism have further undermined that promise. Inequality, instead of reducing, started to increase and has now reached height unknown since the post war years in developed, democratic, societies as documented by an ample literature, including the OECD reports of the last 15 years, although, again, to different degrees across countries (Crouch 2013). A small consolation is that in the developing world inequality is instead decreasing, although in an uneven way across countries, with China and India driving most of the improvement (e.g. Milanovic 2016). Furthermore, the improvement has concerned mainly the middle classes, while the poorest ones have remained the same or even worsened, due to the loss of subsistence means because of climate change, pollution or the appropriation of land by big companies and even states (e.g. China in Africa). According to Sassen (2014), inequality both in the developed and in the developing world risks even becoming sheer expulsion for an increasing number of individuals and groups, made redundant by an anti-humanitarian and anti-social capitalism. And the anger of “the left behind” has spurred much of the growing popularity of nationalist movements.

There is a general consensus on the reasons of the increase in inequality, although individual analysts may focus more on one or another. We can follow Atkinson (2015) and Franzini and Pianta (2016) in detecting four main drivers. The first is the increasing power of capital over labour due to the combination of capital mobility, labor market flexibilization and technological change in a context of weakening of the strength of trade unions. The second is the rise of oligarchs capitalism, due to the concentration of income, wealth and power in the top 10% of citizens – and most notably in the ultra-rich top 1%. This concentration, in turn, is not only nor mainly the result of the traditional concentration of wealth, but of an unprecedented gap in wages between the top managers and the rest of workers, a concentration which has little to do with their added value and merit, but largely with the monopolistic positions they hold. As a

consequence, an increasing lower share goes to workers. A third driver is the individualization of economic conditions. Workers are increasingly divided in terms of family backgrounds, education, employment contracts – permanent or temporary, full time or part time, etc. – and are polarized in terms of skills and wages. The fourth driver is the retreat of politics. In the name of market self-regulation governments have reduced their control on market rules at all levels – labour market and capital movement regulation, distribution and use of profits, regulation of the social impact of technological development. the retreat of politics, while it has de facto encouraged oligarchic, rather than true market capitalism, has also reduced the space for redistribution through taxes, public expenditure, provision of public services outside the market.

In the face of these developments is it possible to revive the welfare state promise to contrast unacceptable inequality through a recalibration of the welfare state in order to make it more efficacious in the changed context?

My answer is that we do need to recalibrate the redistributive role of the welfare state along the lines discussed within the transitional labour market and the social investment approaches. But, given the causes of increasing inequalities also some action on those drivers, that is at the pre-distributive level, is needed. Which means that we need not less, but more state, both for redistribution and for regulating the conditions of pre-distribution.

Recalibration: new risks and new welfare designs

All post-war welfare states were premised on a) stable employment for men; stable marriage based on a clear gender division of labour and responsibilities, which granted both intra-household redistribution of income and care and access to social protection to family members not in the labour market; clear national boundaries.

All three these conditions have changed, unbalancing welfare state arrangements. The welfare state of the “Golden Age”, however, was not

confronted only by its failure to achieve and maintain full employment at good wages in an increasing internationally competitive economy and oligarchic capitalism. It was also challenged by the weakening of the two other pillars. Another challenge came from demography, in the form of population aging.

Partnership instability undermines long term assumptions and expectations concerning the allocation and redistribution of income and care between partners but also between upward and downward intergenerational ties. Increasing women's labour force participation reduces the availability of free female care, while exposing the gendered assumption which underlie much both of welfare state and of labour market regulations.

Population, but also kinship aging unbalances the pension and health services budgets. But it also unbalances (gendered) intergenerational expectations concerning caregiving and care receiving precisely when they are already under pressure because of higher women's labor force participation and changes in pension age.

The first two sets of processes, together with that involving labor market precarization, have been indicated with the somewhat controversial term "new social risks" (Bonoli 2005, Taylor Goby 2004). They have spurred arguments for a "new welfare state" (Esping Andersen et al. 2002), based on a recalibration of its targets and means, thus also on a different allocation of social expenditure (e.g. Ferrera and Hemerijck 2003).

Within these arguments, two different, but not concurrent, approaches and kinds of argumentations have entered not only the academic debate, but offered a narrative used by policy makers at the national, EU and sometime wider (eg. OECD) level: the transitional labor markets and the social investment approaches.

The transitional labour markets approach (Schmid 2003, 2006, but also Supiot 2001) addresses almost exclusively the "new social risk" of labour market flexibility, which often translates in precarity, loss of income,

deskilling. Against the neo-liberist view which considers social protection both a burden and as creating moral hazards, it discusses the risks, but also the possibilities offered by labor market flexibility as a way to develop a better balanced working life course, integrating different kinds of transitions (having a child, returning in education, catering to urgent family needs and so forth). It has offered the theoretical basis for the development of flexisecurity policies in countries such as Denmark. It has indirectly inspired also the introduction of “working time banks” in the Netherlands and, less systematically, also in other countries: workers’ right to tailor their work-time schedules not only over the week, month, year, but to some degree also over the life course. While flexisecurity addresses labour market driven in- and out- mobility, “working time banks” address the need to have some degree of control and choice on one’s own organization of time over the year, but also the life course. In both cases, the attention is not only on labour market needs, but also on the opportunity to reduce the over-concentration of work and other life transitions in very short time/phases of the life course.

The transitional labour market proposal is mainly focused on paid work, therefore mainly on the working age population. In the most recent version, however, one of its main proponents, Gunther Schmid (2017), has made an effort at enlarging its scope to encompass a variety of life course transitions and to grant a degree of freedom to individuals with regard to labor market participation. Inspired by Supiot’s 2001 report and by the proposals included in Atkinson’s (2015) last book, which is both a systematical analysis of the causes of economic inequality in the developed countries and a detailed set of proposals in order to reduce it, Schmid argues in favor of the establishment of new social rights and new social obligations on both sides of the labour market. These new rights should cover all kind of workers and cover all kinds of needed leave – for child care, elderly care, training, returning in education. They would include: rights to education and

training, to appropriate working hours including the right to request shorter working hours), to a family life, to occupational redeployment, retraining or vocational rehabilitation, and to a flexible employment guarantee through the state, which would be flexible in three respects: individuals’ freedom to choose an offer by the state; possibility to combine this right with various ‘nonstandard’ forms of employment, such as involuntary part-time; possibility to obtain this guarantee in the form of subsidized private employment.

“An employment strategy of inclusive growth should be based on the regulatory idea of a new labour standard, which goes beyond employment and includes all kinds of work that are socially valued or even obligatory. The inclusive labour contract brings together the supply strategy of investments into human capabilities over the whole life course, and the demand strategy of inclusive growth through job creation by proper fiscal and monetary policies enhanced by protected variability of labour contracts.” (Schmid 2017, p. 164). Labour policies as time and life course policies and a (universal) unemployment indemnity as a life course safety net (not a real basic income, nor a participation income, but something more than a pure unemployment indemnity or a mean-tested minimum income). Not only making work pay, but also making transitions pay (reducing risk aversion). But the workplace should also be adapted to the workers’ needs, not only the opposite.

The social investment approach has a more encompassing ambition, since it aims at radically recalibrating the overall conceptual and practical framework of the welfare state, which it conceptualizes as promoting policies that both invest in human capital development and help to make efficient use of human capital, including that of women, through active labour market policies as well as through work-family conciliation policies. This “new” welfare state is conceptualized as radically different from the “traditional” one in that it favours “active” vs “passive”, enabling vs

protecting policies; although in the most recent versions some kind of balance is pursued between activation/empowerment and protection. This broader view has been systematized by Hemerijck (2014, 2017), who has conceptualized three different functions of social investment policies, namely, a) strengthening the stock/human capital, b) easing the “flow” of labour market and life course transitions, 3) maintaining strong minimum income universal safety nets as economic stabilization buffers.

The signature policies of the social investment welfare state are early childcare and education – covering the dual role of investing in children and facilitating the employment of mothers: active labour market policies and life-long learning policies. In this perspective, family policies are no longer seen as marginal within the overall social policy package, being redefined mainly as work-family policies. The controversy is open on whether these are really all “new” policies or some of them, at least, are “old” ones, renamed in the new prevalent discourse, whether the countries where they are more developed (the Nordic ones) initiated them under the social investment paradigm or rather under another one, such as universalism and gender equality, and whether the “adult worker” model which underpins it is a new normative model shared as such across all social groups and cultures. In any case, the language of social investment has entered the policy discourse both at the national and international level, even becoming the title world of a EU promoted policy package: the 2013 Social investment package, a set of recommendations aiming at offering “guidance to Member States on more efficient and effective social policies in response to the significant challenges they currently face”.

The social investment approach shares with neo-liberism an almost exclusive focus on employment, on paid work as the only, or main, meaningful activity and form of social participation. Differently from neo-liberism, however, it considers social policies not as a burden, but as a “productive” factor, instrumental to support employability and development,

as well as to create equal opportunities in order not to waste human capital. Little attention, however, is given in this approach not only to what has been called the possible “Matthew effect” of social investment policies (e.g. Bonoli, Cantillon and van Lanker 2017), with the better off and better educated more likely to take advantage of them, but even more to socially structured inequalities, which are instead considered inevitable and even instrumental for lowering the cost of services (in the case of women at least) and to the value of care work and time to care, for both men and women. With all its attention for promoting women’s human capital, it does not substantially address inequalities in the gender division of labour and in the different value and acknowledgment attached to paid and unpaid work and particularly to care (e. g. Jenson 2009, Saraceno 2017).

Despite these limitations, it has gained some ground nationally and internationally not only at the discursive level, but also at the that of actual policy making, particularly in the area of ECEC, of work-family conciliation for young parents, and to a less degree with regard to the young (e.g. Youth Guarantee). It also resonates with the concerns of the knowledge society. Although, with and after the crisis, the primacy of EU promoted austerity have greatly endangered further developments, particularly in the countries that were already lagging behind.

From a focus on redistribution to one on pre-distribution

Both the transitional labour market and the social investment approaches touch only indirectly, or at best partially, the mechanisms that produce inequality, in so far they are concerned with enabling individuals to be in a better position in the labour force, through a strengthening of their human capital and a partial reduction of the constraints in striking an acceptable work-life balance across the life course. In these approaches the state does not play only a redistributive role, but also pre-distributive, in particular with regard to education and training. But this pre-distribution concerns

only one of the dimensions which cause inequality, i.e. socially structured inequality in human capital formation. They do not address the other inequality producing mechanisms, which I mentioned above. These mechanisms, instead, are at the core of what is now known as the pre-distribution approach. The concept of pre-distribution is not new among economists. It has a long pedigree in the radical political tradition and it focuses on the traditional social democratic concern which inspired the keynesian welfare state: how to reconcile productive efficiency with social justice in a market capitalist economy (Chswalitz and Diamond 2015, AG.I.R.E. 2018).¹ It received popularity, however, in the public debate when R. Milliband picked it up from political scientist Hacker and used it in his platform when (unsuccessfully) running as labour party leader. According to Hacker (2011), pre-distribution requires: ‘A focus on market outcomes that encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits.’ The pre-distributive agenda shares many critiques of the new social risks thesis and the social investment and transitional labor market approaches to the inadequacy of redistributive welfare state arrangements. Differently from these, however, it is devised as explicitly challenging unequal concentrations of capital, wealth and power, promoting the goal of a ‘property-owning democracy’, where every individual has a stake in the capitalist system by virtue of being a citizen.

Without denying the role of redistributive policies, the aim of pre-distributive policies is to promote market reforms that encourage a more equal distribution of economic power, assets and rewards before government ‘collects taxes or pays out benefits’ Pre-distribution seeks to restructure the market economy, ensuring that fairer outcomes for all be secured without sacrificing long-term growth and productivity (see e.g. Matzner and Streek 1991). Rather than wholly relying on the redistributive sphere of social policy, the aim of pre-distribution is to address the

structural context of contemporary capitalism: the quality of work and the satisfaction it generates; the allocation of ‘good’ and ‘lousy’ jobs; the prevailing framework of employment rights and market flexibilities; and the extent to which markets work in the public interest by treating all consumers, including the most vulnerable, equitably (see also Carlin 2012). The aim of pre-distributive market design is to eliminate biases that benefit privileged groups, promoting public interest objectives that reduce the need for *post hoc* government intervention. Differently from the social investment approach, it is concerned not only with equal opportunities, but also with contrasting too much, or unjust, inequalities in outcomes (see also Atkinson 2015). Its agenda is encompassing. Similarly to the transitional labour market approach, it proposes the introduction of legislated minimum wages thresholds, to protect the poorer workers and to introduce a labour market flexibility friendly both to workers and enterprises. It supports work-family conciliation policies as a means to keep women in the labour force. And, similarly to the social investment approach, it stresses the importance of education starting early, as well as life-long learning. It also envisages some form of “property-owning democracy where everybody receives a share of the common wealth. Therefore, in counter-trend to what has happened in most capitalist democracies in recent decades, it is in favour of inheritance taxation in order to limit the intergenerational transmission of inequality (see also Atkinson 2015). But it also aims at reforming financial systems to reduce the moral hazards and the loading of their costs on the taxpayers as well as limiting the executive and CEO’s pay awards. It envisages busting monopolies and cartels across product and capital markets, supporting start-ups and small- and medium-sized business (SME) formation as well as some form of workers’ participation in decision making and in benefit sharing. It also proposes to limit, through some form of national and international regulation, the cross-national mobility of capital.

Not only recalibrating, also rescaling: national welfare states unbounded?

The pre-distributive agenda indirectly highlights the consequences of the crumbling of the last pillar of the traditional welfare state: the weakening of national borders (Ferrera 2005, Keating 2013, Kazepov 2017). This happens in four ways. One - devolution to regional/local levels – implies a restriction and even, depending on how it happens, a fragmentation of national borders in many locally distinct and different welfare communities. The other three, on the contrary, imply a weakening, when not a loss, of control on national borders and national human and economic resources. Whether this weakening becomes an enlargement or a constraint is a matter of political choices. The three processes are: globalization of the economy (footloose capitalism, international markets and so forth), which render insecure the financial base; migrations, which change the composition of the population as a stable risk sharing community; the partial cession of sovereignty due to membership to supranational bodies and, in the Eurozone, to a supranational currency.

Although welfare states have developed as national, bounded projects, at present they cannot avoid the issue of being both unbounded because of migration, international competition, financial mobility, and bounded by supra-national institutions, including supra-national rating agencies. Sovranational boundedness, but also un-boundedness is particularly acute in the case of countries belonging to the EU, and within these, of those belonging to the Eurozone. As EU members, they must comply with EU directive concerning minimum welfare arrangements, mobility both of labour and of capital, anti-monopolistic regulations and so forth, and, as Eurozone members, also with budget regulations concerning allowed deficit. But, because of these same rules, they have little control on who moves where across the EU, both at the individual and at the enterprise level. Thus, they have little control on their tax basis while being constrained, if within the Eurozone, by common rules. It is a real paradox that an international community that shares common economic rules (and currency) and acts as

an open market where every enterprise can move and compete with everybody else, has not considered what this means for the national welfare states. So far, the EU has refrained both from directly regulating both the movement of capitals and national welfare states. The social pillar is always in secondary position with regard to the economic and employment committee (Copeland and Daly 2014, Saraceno 2015). The Social investment package risks remaining a wish-list in the face of strict budgetary requirements. Furthermore, social rights are difficult to be transported from one country to another (see e.g. pensions), although an EU citizen resident in another EU country is entitled to welfare state benefits in that country and an insured EU tourist travelling across the EU can benefit from the health service in that country. Given the different generosity and diversity of national welfare states, however, these possibilities may create fears of social dumping on the one hand and of welfare tourism on the other. It can also happen that countries who compete for having senior citizens of other countries promising lower costs and lower taxes, while depleting the revenues of the fellow countries these pensioners come from, may find themselves saddled with increasing health costs because of this additional old population. As for non-EU migration, it has become a driver for rebuilding national borders (see the Dublin agreement), rather than for revising them. Thus, what is national and what is the EU is a continuously contested and negotiated issue.

The redistribution occurring within the EU in the form of structural funds does not amount to an EU-wide welfare nucleus, all discourses on the European social model notwithstanding.

While all projects of welfare recalibration have to deal with the national un-boundedness of many resources theoretically available for redistribution, the pre-distributive approach, in order to achieve its goal of market and capital re-regulation, needs explicitly some kind of international consensus – something difficult to achieve in the context of the growing consensus

gained by nationalist movements as a reaction to the social damages caused by the lack of that regulation and by the political blindness to its consequences.

¹ Interestingly, at the end of 2018 and in view of the Spring 2018 European elections, the Social Democratic group in the EU Parliament has launched a document that advocates some of such pre-distributive measures, among which setting clear rules on the transfer of a company's headquarter within the EU, the inclusion of EU wide tax-dodging clauses in all of its trade agreements with third countries, the definition of legal obligation of accountability towards society for private finance, an European Child Guarantee and and European Fair Wage Action Plan (See Independent Commission 2018).

European economic policy facing the markets -

Andrea Roventini

The European Union has been hardly hit by the Great Recession and the Greek crisis. This has led to a deep fall of GDP, an increase of unemployment and poverty. At the same time, this has triggered a process of divergence among European economies - with Germany and some other Northern countries recovering fast, while Southern countries facing slow growth – which is a threat to the very existence of the Euro (more on that in [ISIGrowth policy brief](#)).

However, the problems of Europe are not recent, but have deep roots in the past. First, with the exception (again) of Germany and few other economies, European economies have facing a process of de-industrialization which have been accelerated by globalization and it has led to the loss of decent jobs. Second, Europe is relative weak in new technologies and industries as compared to its major international competitors (i.e., the U.S, Japan, China, South Korea). And this is not due to the so-called European paradox - i.e. European countries are leader in science, but they are not successful in translating scientific advances in new technologies with industrial and commercial applications -, but to a European weakness also in scientific research (see Cirillo et al. 2018). Fourth, labor share is declining, while wages growth is stagnant and decoupled from productivity one (Dosi, Virgillito and Roventini, 2018). Fifth, there is a surge in corporate profits and not only from banks and financial institutions. This is the so-called financialization which menaces the stability of the financial

sector, as well as those of the real economy and can further slowdown innovation and long-run growth (cf. Battiston et al., 2018). In turn, the declining labor share and financialization are increasing income and wealth inequality. Finally, European Union is facing many societal challenges, among which climate change is the tallest one (see Lamperti et al., 2018).

European Union must provide policy solutions to all these problems in order to avoid being condemned to a chronic stagnation and to a marginal role in the world. The response of the European Commission was grounded on two major pillars: fiscal austerity (possibly implemented with cuts in public expenditures) and structural reforms in the labor market aimed at achieving both numerical and wage flexibilization. These policies complement the long-term European policy mix fostering financial market deregulation, privatization, and other supply-side policies (e.g., tax cuts for corporation and falling progressivity of income taxes).

In that, the European Union has been advocated policies in line with those that international institutions such as the IMF has imposed to Latin American economies in the eighties.² Rightly, Fitoussi and Saraceno (2013) point out that an emerging Berlin-Washington consensus has driven economic policies in the European Union. Such policy mix is grounded on a blind faith on the “magic of the markets”. To caricature a bit: if the forces of competition are unleashed and markets work at full steam, the performance of the economy improves both in the short- and in the long-run and everybody is better off via the trickle down. In this framework, State, institutions like trade unions or regulations are always a distortion that worsen the economic performance. Is this really the case? A detailed analysis is beyond the scope of this short paper, but *prima facie* one can compare the performance of “regulated” European economies during the *Trente Glorieuses* (i.e., the thirty years of growth that followed WWII) vis-à-vis those of the free-market post Reagan-Thatcher period. During the *Trente Glorieuses*, a Fordist production system, where a covenant between firms

and workers implied stable jobs with wages fully indexed to productivity growth, together with the rise of the Welfare State and progressive fiscal policies guarantee a sustained period of growth characterized by lower unemployment and falling inequality. In the post Reagan-Thatcher period, the deregulation of labor and financial market, the progressive reduction of the Welfare state, waves of privatizations and tax cuts lead to a growth pattern grounded on increasing inequality and debt which eventually erupted in various financial crises and the Great Recession.

And in this fuss for the restauration of free market policies, macroeconomic theory had big responsibilities. The earlier Monetarism, grounded on the work of Nobel-laureate Milton Friedman, and the later New-Classical and Real-Business-Cycle theories advocated by Nobel-laureates (sic) Robert Lucas, Edward Prescott and Fyn Kydland provided intellectual and theoretical support for free market talibans against any sort of monetary and fiscal policy intervention, and more generally for an active role of the Government in the economy.³ Indeed, if recessions are the optimal response of the economy to shocks, policies are at best useless or can increase inflation. The Dark Age in which macroeconomics entered in the seventies (Krugman, 2009) lead to the emergence of a wide consensus grounded on Dynamic Stochastic General Equilibrium (DSGE) models in which rule-based monetary policy targeting inflation was considered the only necessary tool to stabilize both price and output fluctuations. This was ambitiously called “the divine coincidence” by many New Keynesian economists. However, such Panglossian consensus in macroeconomics was wiped out by the Great Recession, the biggest crisis hitting developed economies since 1929. Indeed, post-real DSGE models (Romer, 2016) appeared to be completely useless to explain the origin of the Great Recession and to provide effective policy solutions. This opened a lively debate among economists on the crisis of macroeconomic theory (a detailed account of such a debate as well as of the history of macroeconomics since

the thirties is in Dosi and Roventini, 2019).

Coming back to the previous problems plaguing European economies, one needs new policies grounded on fresh empirical and theoretical research. This was the main objective of the Innovation-fueled, Sustainable, Inclusive Growth (ISIGrowth) project funded by the European Union Horizon 2020 Research and Innovation action. More specifically, the main goal of ISIGrowth was twofold. First, providing novel and comprehensive diagnostics of the relationships between innovation, employment dynamics and growth in an increasingly globalized and financialized world economy. Second, on the grounds of such diagnostics, elaborating policy scenarios and delivering a coherent policy toolkit to achieve the Europe 2020 objectives of smart, sustainable and inclusive growth. The ISIGrowth project was led by the Scuola Superiore Sant'Anna and it involved researchers from different European institutions spanning from Germany, France, Slovenia, Switzerland and the U.K. The ISIGrowth project was rated "excellent" by the European Commission and its policy proposals were presented at the European Parliament by the coordinator Giovanni Dosi and by Mariana Mazzucato.

The ISIGrowth project proposes a *New European Deal*, an ambitious policy plan for jumpstarting inclusive and sustainable growth in Europe driven by innovation. Such a plan is detailed in a series of policy briefs. The New European Deal does not only require new policies, but also new institutions and often less market. In that, it goes against the conventional wisdom that markets know and do it better. More specifically, the New European Deal proposes:

1. De-financialization of European economies (Battiston et al., 2018);
2. "Good" structural reforms in labor markets to rebalance labor power to tackle inequality, spur innovation and foster inclusive growth (Dosi, Virgillito and Roventini, 2018);
3. Tackling inequality via income redistribution and strengthening of universal public services such as health and education;

4. Mission-oriented innovation policies to support high-value, innovative, environmental-friendly production and industries (Mazzucato, 2018);
5. Innovation and industrial policies to support the green transition and achieve sustainable growth (Lamperti et al., 2018).

De-financialization

In the European Union, since the beginning of the century, both financial and non-financial firms have substantially increased the share of financial assets in their balance sheets. The magic-of-the-market ideology supported this trend because markets were supposed to be the most efficient way of allocating resources. However, an increasing number of empirical and theoretical works point out the negative impact of financialization. In the short-run, financialization can lead to huge financial crises as those of 2008 by increasing both the leverage of interconnected financial institutions and mispricing assets (e.g. mortgage backing securities), thus creating bubbles. In the long-run, financialization channels credit to unfruitful activities instead of investment projects and it can hamper innovation by inducing firms to employ their profits in share buybacks to boost their share prices (and the value of managers' stock options) instead of financing R&D activities. Financialization also exacerbate inequality by increasing the rents of the people at the top of the income and wealth distributions also in conjunction with decreasing taxation of financial incomes. In order to tackle financialization, the ISIGrowth policy recommendations suggest to i) link top managers' compensation scheme to the long-term performance of their company, as well as to sustainability and corporate social responsibility goals; ii) set minimal ratio of credit channeled by banks to the real economy, obviously excluding the real-estate sector; iii) fixing a maximal level of intra-bank leverage for financial institutions to dampen systemic risk.

“Good” structural reforms in the labor market

Increasing regulation is needed to curb financialization, what about the

labor market? Structural reforms aimed at liberalizing the labor market have been advocated by international institutions for decades. In particular, the “classic” OECD Job study (1994) suggests removing restrictions preventing downward wage flexibility; reforming the employment protection legislation in order to ease firing; cutting social security benefits in order to spur the supply of labor. Such policies’ recommendations share the same negative vision about labor market institutions, such as trade unions, collective bargaining, legal minimum wages, employment protection laws and unemployment benefits: they are thought to reduce firms’ incentive to hire and unemployed workers’ motivations to actively search for a job. The theoretical grounds of such policies predict also an efficiency-equity trade-off: in order to reduce unemployment and achieve efficiency, one has to accept a possible higher level of inequality. Moreover, there is a deep faith that unemployment is only a labor market problem. However, the empirical evidence supporting such policies’ prescription is rather weak or supports opposite conclusions.

In a series of papers (see Dosi et al. 2019 for a survey), the theoretical research carried out in the ISIGrowth project debunks such policies’ conclusions. First, higher wage flexibility increases functional income inequality by redistributing resources towards profits. Higher inequality reduces aggregate consumption because workers have a higher propensity to consume than capitalists, thus leading to lower investment, lower production and higher unemployment. Second, higher numerical flexibility (i.e. easing firing constraints) spurs personal income inequality, because unemployed workers are induced to accept lower wages in order to get a new job. Third, higher numerical flexibility deteriorates worker skills. Indeed, with higher firing rates, worker job tenures become shorter and unemployed workers cannot improve their skills. In turn, lower worker skills together with lower investment rates halt productivity growth and the long-run performance of the economy. Finally, lower aggregate demand

leads to higher involuntary unemployment which is further amplified by wage and numerical flexibility. Indeed, higher unemployment reduces the bargaining power of workers, further reducing wage growth and curbing consumption, thus inducing firm to produce less and fire more. Such a vicious cycle further increase inequality.

What can be done? Certainly, the complex relationships discussed above suggest that policies targeting only the labor market are not enough to curb unemployment. Indeed, ISIGrowth researchers find that orthodox active labor market policies aimed at fostering job search and matching, as well as to improve the training of unemployed workers have substantial costs, but their impact on economic dynamics is limited. On the contrary, “passive” labor market policies which restore labor market institutions such as minimum wage, unemployment subsidies, collective bargaining strengthening the power of unions are able to reduce unemployment, inequality, to mitigate business cycles and to spur productivity and output growth. Why? They create a virtuous cycles where higher wages and strong employment protection legislation lead to higher demand, stimulating firms’ production and investment, which in turn reduce inequality and unemployment, facilitating the accumulation of worker skills and higher innovation rates. Involuntary unemployment must indeed be tackled at the macroeconomic level. The ISIGrowth policy conclusions suggest that there is no trade-off between efficiency and equity: rigid industrial relations and employment legislation and a full indexation of productivity growth to wages are fundamental to reduce unemployment and spur productivity and long-run inclusive GDP growth.

Sustainable growth

Climate change is one of the tallest challenges human kind has ever faced. The growing rates of greenhouse gas (GHG) emissions is conducive to temperature increases which are going to trigger stronger and stronger

climate shocks negatively impacting on economies and, more importantly, on human lives (Coronese et al., 2018). In a business as usual scenario, where countries do not implement any measure to tackle climate change, temperature could increase up to 3-6 degrees Celsius by the end of the century with possible catastrophic effects. To avoid such a climate Armageddon, countries agreed at the COP21 conference in Paris to contain the increase of the temperature below the 2 degree Celsius limit and possibly close to the safest +1.5. This requires a radical transformation of economies in order to achieve a zero GHG emission pattern by 2050. The transition to sustainable growth does not need to be costly, but rather it offers rich technological opportunities in renewable energies and other climate related technologies that could be grasped by the European Union to jumpstart innovation, productivity and sustainable output growth. While fighting climate change, the European Union could become a world leader in new technologies and industries, creating new successful firms and green jobs.

Such objectives are very ambitious, but not impossible: they require timely and substantial policy interventions. However, market-based policies grounded on emission trading markets, carbon taxes and green subsidies are not enough to achieve zero-emission sustainable growth in the available narrow window of opportunity. They need to be complemented by regulations, stricter standards on emissions and by public investment. In particular, the ISIGrowth research shows that transition to sustainable growth requires a Green Entrepreneurial State directing innovation and technological development together with a symbiotic network of mission-oriented organizations active across the whole innovation landscape. Empirical research shows indeed that financing of renewable energies demands strong direct or indirect government-backed investments, because private actors such as venture capital firms are not willing to provide resources in the riskiest first stages of technology development (Mazzucato

and Semieniuk, 2016). In that, also public investment banks have a fundamental role as showed by the activity of the German KfW and Chinese Development Bank. A Green Entrepreneurial State combining public investment and directed procurement policies targeting private firms is able to create new markets for low-carbon economies, also crowding in private finance and investment.

The Green Entrepreneurial State should follow a mission-oriented approach (Mazzucato, 2018a) in order to respond to the grand challenge of climate change fostering innovation across multiple sectors and create new ones. The recent European Commission's new mission-oriented approach to innovation policy (Mazzucato, 2018b) provides a useful conceptual framework to understand how the challenge of zero emissions can be transformed into a top down targeted mission stimulating cross-sectoral investments/innovation and bottom up experimentation. For instance, the European Union could try to reach zero greenhouse gas emissions in the largest 100 European cities by 2030. This would naturally require innovations and investments in multiple industries (e.g., energy, real estate, construction materials, mobility, food and agriculture, etc.) with possible positive technological cross-sectoral spillovers. Missions should be discussed with the civil society in order to improve them and establish a wide and shared consensus. This, again, cannot be delegated to markets. In particular, sustainable growth must be achieved in an inclusive way, policies should jointly reduce greenhouse gasses emissions together with income and wealth inequality. In that government investments in public health and education have a fundamental role as well as a rethinking of the tax system.

To conclude, notwithstanding the current gloomy situation, European Union can achieve again higher level of productivity and output growth. This requires policies fostering innovation, while tackling inequality and addressing the societal challenges of climate change. This is the European New Deal proposed by the ISIGrowth project. Such policy mix does not

involve trade-offs and lead to win-win pathways. Indeed, by stimulating innovation and equally sharing its fruits, the European Union can improve the welfare of its citizens without additional burden to public finance. The new ISIGrowth policy mix also requires a radical rethinking of the role of the markets. Indeed, the research carried out in the project suggests that markets are often not enough to tackle economic problems. In some cases, more market can even worsen the problem it is supposed to cure, as the impact of structural reforms flexibilizing the labor market or financialization have shown. Moreover, markets have difficulties in addressing complex problems requiring investments and solutions across different sectors. New policies supporting smart, inclusive and sustainable growth needs a strong role of the government and non-market institutions. The European Union has the necessary capabilities and resources to make it.

² For a fierce critique of globalization and Washington consensus policies, see Stiglitz (2017).

³ Naturally, changes in hegemonic macroeconomic theories from Keynesian one to different shades of monetarism depended also on political economy of power relations among social and political groups.

Report: *Framing progressive policies*

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General framework

First of all, we define the meaning of “progressive policy”, which is a *“policy that fosters, in a sustainable manner, equal positive freedoms”*.

It emerged that:

- globalisation is neither fair nor equal, and this is one of the main reasons why far-right and reactionary parties are gaining consensus all over the world;
- the public narrative is dominated by an overall neoliberal approach, which makes it difficult to challenge the current social and economic model;
- a full market-oriented policy demonises all kinds of progressive policies and allows inequalities to grow;
- labour market fragmentation leads to the isolation of workers who increasingly rely on technology to organise themselves, to debate on labour issues, and to decide about labour struggles;
- to face this current globalisation process it is fundamental to rethink the economy from the local point of view and in a progressive way and to deliver welfare policies to tackle inequalities but with a strong link with the communities. It can be done starting from the role of municipalities and enhancing the link between ecology and economy;
- it is important to increase the participation of citizens that want to have more to say in relation to globalisation. It can be done in a transparent way with digital tools designed in a privacy-enhancing and democratic empowering way;

- education and technology are two pillars that can give more space to general participation. This could update our democratic system and also upgrade the agenda in terms of social issues;
- the role of the State is fundamental to recover resources from a progressive taxation and capital control to support a new comprehensive welfare which tackle inequalities, and to promote innovation through public investments;
- there is a link between financial crises and the popularity of the far-right (1929 and 2008). We need to look for a way to avoid crashes, to promote growth and to have shared profits. Principles enshrined in Islamic finance could help in this challenge;
- the idea that social policies should be considered only as an economic investment aiming to improve social capital and productivity has to be reconsidered. It is necessary to go beyond this economisation and emphasise the importance of social policy for people's quality of life and for democratic citizenship;
- previously powerful elites are losing popular consensus and their ethical power. Reactionary forces are exploiting the crisis of neoliberalism to set a more authoritarian system. This moment is the opportunity for progressive forces to organise themselves;
- we need reform which creates a space to build a better environment for cooperation in the market and which allows workers' participation within multinational corporations operating in Europe and globally;
- since austerity is a political choice and inequality is a structural problem, we have to talk urgently about redistribution and workers' and citizens' empowerment.

Key issues and policy recommendations

1. Social inequality

We deem that inequality is a political choice originated by the current economic policies. So, to tackle social inequality and break austerity barriers, we need to define a strong welfare system financed by a progressive taxation and which acts for more effective and fairer redistribution of rights and resources. We also stressed the importance to face social inequality from an environmental point of view, changing economic indicators such as life expectations and education.

2. Democratic participation

- Expanding democracy: make the democracy already existing to work;
- Access to democratic institutions: the use of app and technological devices can contribute to open the debate, to facilitate public hearings, to support citizens' committees in order to push forward democratic stances;

- Scalability: not only build an institutional platform, but also bring tools from local perspective to the higher level, closing the gap between local and higher level.

The State should always include a certain form of participation in the decision-making process in order to involve people who are target to the policy in discussion. This deliberation process should be transparency-oriented in order to avoid power imbalances. We point out that there can be differences between local process and general consensus in elections, problems of time to participate, and lack of freedom of vote with the increase of technology. In any case, we stress the importance to facilitate the participation, looking to what people are thinking and which are their preferences. To enhance the democratic space, we consider fundamental a process in which citizens can interact, contribute to the agenda setting, and participate in final decisions. This can be done by online and offline consultations. Despite two problematic factors such as the digital divide and privacy problems, the use of open sourced, public administrated and high standard technology can improve the participation of local communities into the deliberative and contributive processes – evaluating the policies and creating the room for democratic feedback.

We need to boost participation through a holistic approach with underlying requirements and by organising platforms for citizens' deliberation and participation at the local level. This process could be further supported by a set of Open Source European «best practice» guidelines or a handbook for how to setup a local community deliberative platform or citizens' assembly. Given the fact that the document would be open source, communities themselves could have the opportunity to feed into it, offering advice and 'lessons learned' to other communities around Europe who wished to setup their own processes. Since the local level is more concrete and it is the place where it is easier to have surveys, we propose a booklet for municipalities on how to have deliberative events, to organise digital processes in order to participate, discuss and vote with the aim of

encouraging pro-active citizenship.

1. *Resources*

Every welfare system needs contribution to function in the proper way. The resources can be public or private. The first can be drawn in a progressive way also from capital, inheritance, etc. We stress that there should be a higher tax rate for the short-termism-benefit and we believe that a fiscal incentive can be created for the private sector according to social and sustainable behaviour. Understanding the realities of where power lies in the current system, we also proposed that local businesses and the private sector in general should be effectively brought into the process of local citizens' assemblies and deliberative platforms. More specifically, businesses who wanted to give back into the community and be known for their social impact could choose to fund a citizen's initiative which was voted on by community members. This would increase the efficient use of resources in the local ecosystem, encourage healthy relationships and dialogue between the public and the private sector, and reduce the burden on the state in terms of resource provision. In any case, transparency, accountability and feedback mechanisms should be the basis of the system, and they could be translated in an accessible and easy-to-understand language.

Report: *Tackling Inequalities*

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The general framework

“To determine the laws which regulate distribution is the principal problem in Political Economy”. Thus David Ricardo defined the main task of economic analysis: to investigate how the factors of production are remunerated, and hence how the wealth of a nation is distributed among different classes. This issue remains the cornerstone of all economic theory, from the classical authors to modern heterodox economists.

The question of distribution has experienced a revival even within the mainstream since Thomas Piketty published “Capital in the Twenty-First Century”, in 2013, providing the most important time-series analysis of the phenomenon. The theoretical debate revamped also the political discussion around the issue. For example, in 2017, the Fiscal Monitor of the IMF warned that excessive inequality could generate social and political instability and damage the economic growth. After decades of decline, inequalities have increased substantially across all Western countries and also elsewhere, with the notable though short-lived exception of South American countries under progressive governments. Despite the fact that the overwhelming majority

of the population is hurt by this trend, issues of distribution have not gained, but indeed lost attention in the political agenda, where they have been overshadowed by other perceived emergencies (such as migration and security).

Inequality is a very complex, multifaceted phenomenon. Hence, quite appropriately, the use of the plural in the title of this challenge. In order to start tackling inequalities, therefore, it is necessary to begin by defining the concept. In its broadest meaning, inequality has to do with the subsistence of different conditions, mainly socio-economic ones, throughout history, between and within societies.

Key issues and policy recommendation

1. Income distribution and opportunities

Focusing on the economic dimension, the starting element to define and study inequality is the distribution of income and wealth. Differences in income and wealth are often seen as expressing inequalities of outcome, but they also imply inequalities of opportunity. This opportunity gap is mostly the result of the individual social background and family resources. Indeed, intergenerational social mobility is the most frequently used proxy to measure the inequality of opportunities and to determine whether a society has a low level of meritocracy, i.e. whether there exists a significant and persistent link between an individual's origin and her destination. However, the inequality of opportunities may also be related to a disparity in terms of access to common goods (particularly knowledge and information) and to public services (such as healthcare and education). Inequality of outcome and inequality of opportunity may be mutually reinforcing. Individuals with more available resources are more likely to access higher quality education and a network of relations that may help them gain experiences and facilitate the career development. On the contrary, individuals with low resources may downgrade their

aspirations and ambitions for the future, as they perceive few opportunities. This may lead to a reduction in the investments in education, amplifying the differences in outcomes. Therefore, to deal with inequality of opportunity tomorrow, it is necessary to be concerned with inequality of outcome today (Krueger 2012). There are other important dimensions of inequality, like the spatial dimension. This mainly refers to the segregation effects, where individuals belonging to the bottom classes are living in areas characterized by low access to basic social services and few opportunities of social integration. Gender is another important aspect characterizing inequality.

Lastly, the adoption of social impact bonds is a way to combine traditional instruments of finance (bonds) with aims that have social relevance. The idea is to provide support in the re-socialization of the most disadvantaged people that would help break the vicious circle between outcome and opportunity inequality.

2. *Wage deflation and the intermediate bodies*

The main causes of extreme inequality may be identified both at macro-economic and social-institutional level. The labour market is, indeed, the place where inequalities mostly generate and strengthen, particularly when the divergence between labour productivity and wages is on the rise (as in recent decades). Lower labour protection and higher precariousness foster the polarization of income distribution and generate higher inequalities. This tendency is exacerbated by the deteriorating role of trade unions that seem unable to adapt to the new forms of capitalism. Just as strong unions can contribute to drive up bottom wages and labour participation, weak unions can be listed as a cause of increasing inequality. Of course, the lost bargaining power of all intermediate bodies, and not just trade unions, is also a consequence of mounting individualism combined with growing market

concentration and global competition. The monopolies and oligopolies are detrimental to the wage share, as Kalecki argued in already 1938: the degree of monopoly determines the relationship between gross profits and wages.

The introduction of a “European full-employment fund”: in order to preserve political and economic stability, as well social cohesion, through less inequality, full-employment is necessary. Therefore, creating a European fund that supports the members in achieving this objective, by providing countercyclical funding for unemployment benefits and requalification, may be a logical solution to deal both with the downward pressures on wages and with the high inequality ensuing from a high level of unemployment.

3. Free movement of capitals and the neoliberal agenda

The free movement of capital may generate social dumping, together with regulatory and fiscal arbitrage, thereby forcing down wages and welfare expenditure, but also creating policy pressures through a surge in inflows followed by massive outflows of capital, as the Southeast Asian countries experienced in late 90s. The IMF is reconsidering the usefulness and viability of capital controls as a means to contrast speculative portfolio movements, without limiting the current account. Strictly related to this – and the other issues as well - there is the role of the neoliberal agenda on the fiscal and monetary policies. On the fiscal side, the reduction in the size of public budgets, together with the free movements of capital, generates a tightening in the supply of social services (reducing social inclusion and mobility) and incentivizes speculative attacks in case of any progressive reforms and/or “unsound budget policy”. With respect to monetary policy, it is mostly focused on restraining inflation (close but below 2%), which implies a limit on the wage share, even as quantitative easing sustains the value of financial assets and rents, thereby contributing to a further polarization of income and wealth distribution.

The re-introduction of capital controls and a shift from a shareholder- to a stakeholder-value approach in both private and state-owned companies – e.g. including both workers and even consumer representatives in the business decisions – may be beneficial for the real economy. Indeed, this should generate long-term investments and avoid speculative movements as well as social dumping. Moreover, (re)transferring natural monopolies in the public domain will avoid the distributional distortions created by market concentrations.

Report: *The nation state and supranational public actors facing the global economy*

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The general framework

Our table's main (and wide) topic was the role of the Nation State and of supranational Public Actors in the management of the economy in a global context in which multipolarity has changed the landscape of constraints and opportunities. A particular care has been devoted to the possibility and feasibility of renewed forms of coordination among nations in a context of supranational guidance. This is why the table has quickly focused on the EU case. The question as formulated initially produced a moment of turmoil: although the idea of subsidiarity was immediately acknowledged as a pivotal question, the group ranged over many conflicting issues. Our participants had to manage a difficult composition of apparently divergent views: the identification of top-down mechanisms to solve global disputes whilst individuals ask for bottom-up mechanisms to protect their rights and allow active participation to decisional processes.

Key issues and policy recommendations

1. Long-term structural stagnation

Participants considered the stagnation characterizing advanced economies as structural and persistent from the '80s. This long-lasting stagnation has been amplified by the Great Financial Crisis and by the austerity measure that, mostly in the EU, and following neoliberal orthodoxy, have been taken in order to “overcome” it. There has been broad consensus on the fact that the latter failed in their goals and, in fact, contributed to strengthening the very roots of the crisis. In this sense, the lack of fresh, smart and sustainable investments in strategic industrial sectors, due also to the lack of clear orientation in industrial policy, has been identified as a crucial factor, along with the inefficiencies aroused from capital market liberalization in terms of externalities which have made global savings not efficiently channelled to investments. In this framework, the group drew attention to the fact that the European Union was not sufficiently prepared because of the lack and/or inadequacy and/or ineffectiveness of its coordination mechanisms. Their first criticism was about the contradiction in fiscal policy, delegated to each nation without the suitable and desirable degree of autonomy. Furthermore, a significant part of the group manifested the need for new actors for the identification of a common industrial policy. Last, but not least, a lack of coordination stems from insufficient cohesion and social dialogue in the community, since citizens and workers are poorly represented in public and private places.

2. Market liberalization and the freedom of capital movements

Primary policy measures have been detected in outright restrictions to financial transactions and limits on the issue of various financial instruments (such as bonds, derivatives and, to some extent, deposits). At the same time, taxation on commercial and investment banks must be revised. As for the Euro architecture, our participants agreed on the need for current account symmetrical balancing mechanisms, putting

charges on all imbalances, i.e. on both deficits and surpluses. The historical precedent of the European Union of Payments has been mentioned.

3. *Need for new degrees of freedom for national policies*

A deep rethinking of industrial policy has been proposed starting from three main subjects. First, the development of a new, clear and coordinated industrial vision, manufacturing oriented, and new accountable State-owned enterprises, subject to control and guidance from stakeholders. Second, harnessing private investments, guiding and channelling whilst stimulating private actors to reinvest. Moreover, contrasting austerity, the group settled on a boost in public investments, to be financed partly with a (prudent) monetization of public expenditure and/or by allowing the Central Bank to acquire bonds. Lastly, renewing existing agencies and instituting some new have been identified as crucial. Some examples are public investment banks, with a mandate on industrial development, and environmental banks, with a mandate on the coordination of environmental policies. At the same time, participants agreed to enhance the role and scope of activities of the European Investment Bank.

Part II – to REGULATE

Measuring What Matters: the future of corporate performance measurement and management -

Pavan

Sukhdev

Introduction

The planet is warming. According to the USA's National Oceanic and Atmospheric Administration (NOAA) the ten hottest years recorded (i.e. over the past 139 years) have all been in the past decade (1998-2018), with 2016 being the hottest⁴. Meanwhile humanity continues being tested by the increasing severity and frequency of extreme weather events globally, and their human and economic costs. And it is not just greenhouse gas (GHG) induced climate change that is spiraling out of control to a point where we need to start calling it climate "breakdown" rather than climate "change". A recent air quality study conducted by Air Visual and Greenpeace Southeast Asia shows that two third of the cities globally (amongst those with adequate air quality data) are suffering from dangerous levels of air pollution⁵.

It is evident that humanity as a whole is rapidly over-exceeding the carrying capacity of our planet. Mapping planetary boundaries, which explain the limits within which humanity can operate safely with respect to the Earth's biophysical system (Rockström, et al., 2009), suggests that we have already breached two of the nine boundaries (i.e. rate of biodiversity loss and interference with biogeochemical flows) (Steffen et al., 2015). By overshooting planetary boundaries, we continue to apply pressure on

critical systems essential for ensuring survival of life on the planet. Unless this pressure is contained, we risk exceeding the planet's regenerative capacity – leading to a tipping point beyond which all means of mitigation and adaptation fail.

“Corporation 1920”: Dangerous Driving

Understanding the full extent of potential impacts of over-shooting our planetary boundaries requires that we first understand the driving forces behind this. According to the Carbon Majors Report, 100 major companies are responsible for 71 percent of the global emissions (CDP, 2017). Not surprisingly, the majority of these companies deal with fossil fuels. Globally, the private sector is the largest contributor to GDP (more than 60 percent) in most countries (IMF, 2013) and creates a comparable fraction of jobs. In the USA, these shares are as high as 74 percent of jobs (Johns Hopkins Nonprofit Economic Data Project, 2010). It appears that the “*business-as-usual*” (BAU) business practices of old-style corporations – the so-called “*Corporation 1920*” model which seeks *only* private profits at the expense of all else including public losses - have and will continue to play a significant role in determining our future sustainability.

In my book “*Corporation 2020*”, I have illustrated the dominant nature of today's corporations and their impacts, and presented a theory of change, identifying four main macro challenges (see Figure 1 below), their micro-level drivers, and micro-policy solutions to these drivers⁶. Fundamental to these issues is the challenge of change. How can a typical “*Corporation 1920*”⁷, obsessed with the pursuit of size for profit maximization, infused with attributes such as aggressive and unprincipled lobbying, unethical advertising and leverage without limits evolve its culture and its business practices to ensure a sustainable future for itself and for humanity? These issues are embedded in the DNA of the “*Corporation 1920*” and are the main driver of the significant negative externalities being imposed by the private

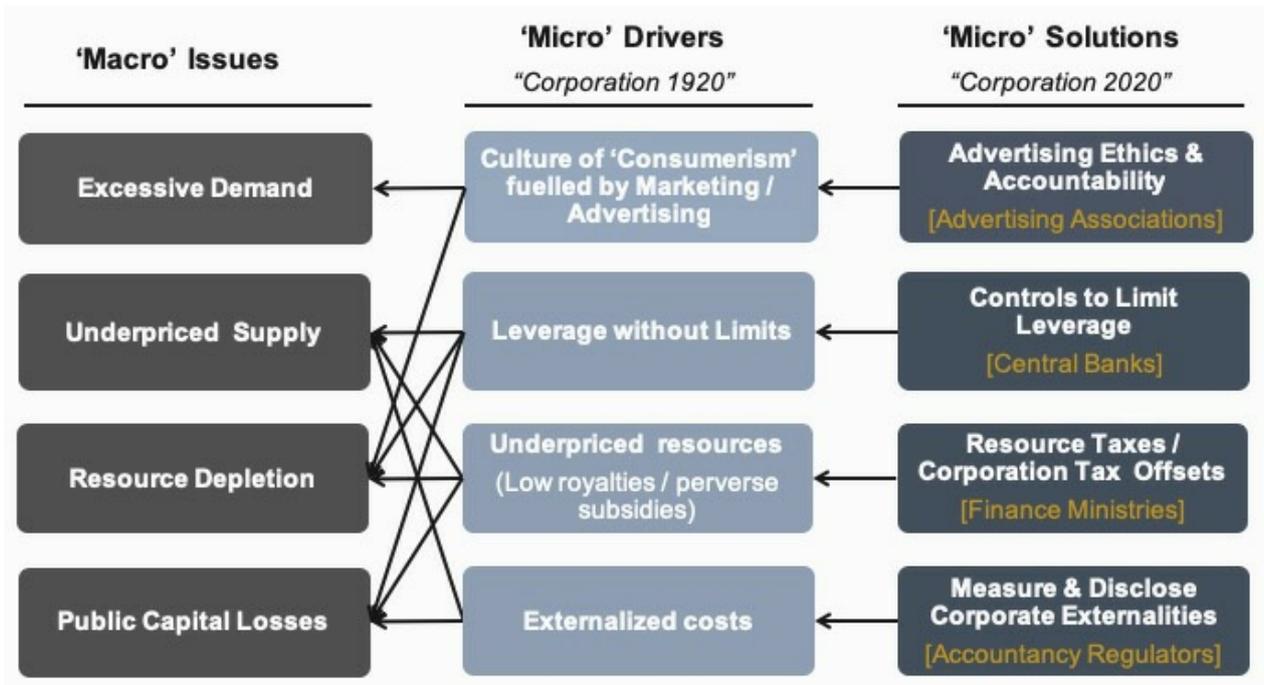
sector on society and our planet. Such is the dominance of the “*Corporation 1920*” model, that even when faced with irrefutable scientific evidence of the damages caused as a result of its practices (e.g., the human health impact of cigarette smoking, use of leaded gasoline, and use of glyphosates in agriculture) change to corporate practices has been enforced only via regulation, and after delays of decades after facts were known. During these decades, the errant corporations have continued to operate as usual with impunity. So how does one enable “*Corporation 1920*” to evolve and change?

Corporation 2020: Theory of Change

“*Corporation 2020*” is the firm of the future. It produces positive benefits for society as a whole, rather than just its shareholders. It encourages positive social interactions among workers, management, customers, neighbors, and other stakeholders. It is a responsible steward of natural resources. It invests in the productivity of its workers through training and education. It strives to produce a surplus of all types of capital, including financial, natural and human capital (Sukhdev, 2012).

Based on the linkages between identified micro-level drivers and material macro-issues; “*Corporation 2020*” represents the potential micro-solutions, which can help remedy the ills plaguing our current global economic systems. A “*Corporation 2020*” is characterized by the principles of incorporating externalities, limiting financial leverage, resource taxation in place of profits taxation and ethical advertising. [Figure 1](#) presents “*Corporation 2020*”’s theory of change.

Figure 1. 'Corporation 2020' Theory of Change



Source: GIST Advisory 2019

Incorporating externalities is essential to managing serious business risks (e.g., impacts on future raw material costs or availability, regulatory penalties, ability to attract & retain skilled employees, social license to operate, etc.). It is essential to have an *ex-ante* mechanism to measure, report and minimize the negative impact of a corporation's activities on society consciously; as compared to existing *ex-post* measures, which only seek to compensate affected stakeholders post-disaster and / or pay penalties imposed by a regulator post-decree.

Leverage often overexposes organizations to downside risks and creates or magnifies negative returns for corporate stakeholders as well as creating systemic risks and costs for society at large (Sukhdev, 2012). Whilst leverage in the financial sector can be limited through regulatory capital requirements and vigilant monitoring by Central Banks, significant

improvements need to be made to manage leverage in other sectors more effectively. Their exposure to leverage is apparent: witness the crumbling of leading sectoral giants such as AIG and General Motors during the 2008 global financial crisis.

Taxation systems need to change from their dominant model of “*taxing the goods*” (i.e., incomes) to one that emphasises “*taxing the bads*” (i.e., resource use, pollution, etc). Taxing the resource base of our predominantly brown economy – coal, petroleum, and many other minerals – can steer the market away from resource intensive growth and towards smart-technology industries in renewable energy, energy efficiency, new and better materials, and waste management (Sukhdev, 2012). Resource taxation has the potential not only to reduce consumption-intensity of “high-impact” or “limited” resources, but also to generate new revenues and eliminate perverse subsidies to generate additional finance for innovation in improving existing resource-use efficiencies and / or use of alternative resources.

Advertising has to be made more accountable for the ways it fuels consumption and for the real outcomes that this consumption has in the long run – both in individuals’ lives and in society overall (Sukhdev, 2012). Accountable advertising can empower the consumer to make responsible decisions, based on transparent mandatory reporting of all relevant product information, including its lifespan, disposal instructions, countries of origin, and most material impacts on the environment and on public health.

These are four important, separate but parallel planks of change, but the key to evolving from “Corporation 1920” towards “Corporation 2020” lies in recognizing the existing deficiencies in corporate performance evaluation and reporting systems and in correcting them. Our current system of performance evaluation is focused solely on shareholder wealth impacts. Consequently we fail to recognize or account for other material impacts (both positive and negative) being generated by the corporation across the other capital classes and ownership levels. The current system presents an

incomplete picture of the dynamic nature of interactions between the different capital classes, stakeholder wellbeing and corporate value creation. Continuing to focus solely on financial reporting in an increasingly volatile global environment is akin to attempting to navigate a complex spaceship across a multi-dimensional space using a traditional mariner's compass. The only predictable outcome will be to crash and burn. To succeed, today's corporations need to discard their "Corporation 1920" mariner's compass and upgrade to a "Corporation 2020" spaceship dashboard, and do so quickly.

From Theory to Practice: The Multi-Capital Approach

Current corporate performance reporting systems ignore the significant externalities (both positive and negative) on other forms of capital, which impact stakeholders other than the shareholder. Although "*third-party*" impacts, given the complex interlinkages between the stocks & flows of natural resources, quality & availability of human capital and enabling function of social capital; business externalities do get internalized by the corporation. Typically this occurs via increased risks to raw material availability, business operations and profitability. Using a single-capital benchmark is therefore guaranteed to provide business managers and stakeholders with inadequate information and lead to ill-informed decision making. Simply put, "*one cannot manage what one does not measure*".

Corporations must evolve their reporting practices to account for business performance via a multi-capital framework. There are several globally accepted and standardised multi-capital frameworks available for corporations to choose from, including International Integrated Reporting Council's (IIRC) Six-Capital Integrated Reporting <IR> Framework⁸, Forum for Future's Five-Capital Framework⁹ and Four-Capital Framework adapted by UN Environment in collaboration with leading economic scholars via the Inclusive Wealth (IW) report¹⁰.

Capital-based Valuation Framework for Reporting Business Externalities

Inclusive Wealth, as defined by Professor Partha Dasgupta, ‘is the social value of an economy’s capital assets. The assets comprise (i) **manufactured capital** (roads, buildings, machines, and equipment), (ii) **human capital** (skills, education and health), and (iii) **natural capital** (sub-soil resources, ecosystems, the atmosphere). Such other durable assets as knowledge, institutions, culture, religion – more broadly, **social capital** – are taken to be **enabling assets**; that is, assets that enable the production and allocation of assets in categories (i)-(iii). The effectiveness of enabling assets in a country gets reflected in the shadow prices of assets in categories (i)-(iii)’ (UNU-IHDP and UNEP, 2014).

GIST Advisory’s Four-Capital Framework¹¹ (see

[Figure 2](#)) reports corporate performance in line with the IW Framework. **Error! Reference source not found.** provides the definition and description of the key characteristics of the four capital classes.

Figure 2 Capital Classes & Ownership Categories for Externalities Reporting: GIST Advisory’s ‘Four Capitals’ Framework is consistent with the capitals framework of the United Nations’ “Inclusive Wealth Report”

Ownership Category	Capital Class	Produced Capital	Human Capital	Natural Capital	
Private Ownership:		<ul style="list-style-type: none"> Factories, Buildings Cash, Securities, Investments Patents, Software, Licences 	<ul style="list-style-type: none"> Health Education Job Skills 	<ul style="list-style-type: none"> Mines Fields, Water bodies Private Forests 	
		<ul style="list-style-type: none"> Market design, regulations, rules, etiquette Exchange & OTC rules for delivery and settlement 			Social Capital
Community Ownership: ('Club Goods')		<ul style="list-style-type: none"> Community Centres & Schools Shared infrastructure for village or neighbourhood 	<ul style="list-style-type: none"> Traditional Community Knowledge Community health 	<ul style="list-style-type: none"> Community Forests Grazing Commons Community water bodies 	
		<ul style="list-style-type: none"> Community rules, norms, customs, culture, quality of living Institutions to secure and optimize shared resources 			Social Capital
Public Ownership: ('Public Goods')		<ul style="list-style-type: none"> Roads Bridges Public Hospitals 	<ul style="list-style-type: none"> Public Databases Non-patent Knowledge 	<ul style="list-style-type: none"> High Seas Fisheries National Parks & Forests 	
		<ul style="list-style-type: none"> Constitutions; Judiciary; Law & order systems; Taxation & public investment systems Social equity; Communal harmony; Cultural diversity 			Social Capital

Source: GIST Advisory 2019

Business externalities can result in positive or negative impacts on third-parties. These impacts be observed as third-party changes in one of four categories of capital (produced, natural, human, social) belonging to one of three classes of ownership (i.e. private ownership – such as job skills and health; community ownership – such as village schools, community groves, neighbourhood security systems, etc; or public ownership – such as climate stability, national parks, law & order, etc.). Materiality (i.e. economic or social size and significance) is the main reason for including an impact, but materiality of drivers and impacts differs significantly from sector to sector.

“Why” and “What” of Valuation

Valuation informs and improves business decision-making along the value-chains that generate externalities, by assisting business managers in designing appropriate responses. It enables business responses to their externalities to be prioritized, appropriate, effective and efficient in reducing or offsetting negative externalities and increasing positive externalities. Valuation similarly also informs a range of stakeholders, from investors to civil society, supporting their interests to seek such business responses, to reduce risk to the business in the long term, and reduce negative impacts to society in the short and long term.

Valuation of externalities is about measuring the economic value of changes in any of the four kinds of capital belonging to any of the three categories of third-parties as a result of the activities of a business. Valuation must focus on material externalities, determined as material in social and economic terms for the owners of the capital category being impacted. Furthermore, where a business undertakes activity to “*offset*” its negative externalities, the impacts of such “*offsets*” must also be valued and set off against the externality.

In evaluating third-party impacts across these classes of capital and categories of ownership, we find that there are seventeen major drivers of externalities arising from typical business activities, which most commonly generate the most significant third-party impacts. Of these, six are “*environmental drivers*” (viz, GHG emissions; freshwater extraction; waste generation; land-use change; air pollution; land & sea pollution). These six environmental drivers were first proposed by Trucost plc & PwC, and formed the basis of their “EP&L” (Environmental Profit & Loss) calculation for Puma, a footwear and apparels company, in an externality statement published by the company in May 2011. It should be noted that the actual “*impacts*” referred to in EP&L are not only natural capital externalities—there are also human capital externalities (e.g., health impacts of pollution and waste).

Two corporate drivers in the space of employee human capital are *employee training programs* and *employee health and safety (EHS) standards* which, if managed well and to scale, can lead to large positive human capital externalities (see example in Chapter 5, “*Corporation 2020*”), describing the work of GIST Advisory to estimate the human capital externalities of Infosys). Three corporate drivers that create potentially large social capital externalities - positive and negative – such as impacts on institutional and social architecture, employment opportunity, social inclusion, etc - are primarily due to CSR programs, business models, and company policies. (see Natura example in Chapter 5, “*Corporation 2020*” for an example of a business model that generates positive social capital externalities.) It should be noted that companies do account for (‘internalize’) the *costs* of CSR programs, but there is no compulsion to measure or report the positive externalities or *benefits* – positive impacts on third-party social, human, or natural capital – precisely because these are ‘externalities’. Sometimes, CSR program benefits may be targeted as ‘offsets’ to known negative externalities, which is why measuring and reporting the one ought to be

accompanied by measuring and reporting the other. It should also be noted that the eleven drivers are selected based on the area of business activity that generates them and the materiality of impacts they create, rather than their easy fit into the three categories of ownership and four categories of capital.

Classification ambiguities might arise due to confusions between what is a *driver*, *outcome*, or *impact*, and such ambiguities should be addressed consciously, with context and assumptions disclosed. For example, “waste generation” is an *environmental* driver, even though its real impact is on human health, i.e. *human capital*. Furthermore, within the *environmental driver* category, the waste management process might be such (e.g., incinerating plastic waste) that the driver could be classified either as “waste generation” or as “air pollution”, so a decision needs to be made - a ‘framework’ choice as it were - on a standard classification so that comparability and consistency across industries and companies is ensured.

Integrated Profit & Loss <IP<M>: The Future of Corporate Performance Reporting

Currently, corporations follow a diverse, often dis-connected, multi-stakeholder reporting approach characterized by different performance measures reported separately for different stakeholders (see [Figure 3](#)). This is a time-consuming and resource-intensive process, that more often than not leads to “reporting for reporting’s sake” or a “check-box” approach to corporate performance evaluation. Each report is designed to serve a separate purpose and none of them provide a holistic picture of a corporation’s true value creation for its stakeholders. In future, all of these reports can be combined into “One Report” (see [Figure 4](#)) addressing multiple stakeholder groups.

Figure 3. Corporate Performance Reporting Today – Many Reports for Multiple Stakeholders



Source: GIST Advisory 2019

Figure 4 Future of Corporate Reporting - Integrated Reporting <IR>



Source: GIST Advisory 2019

GIST Advisory’s Integrated Profit and Loss Reporting” or <IP<M> evolved as a corporate initiative in sustainability leadership, in response to the publication of the Integrated Reporting <IR> framework in 2014 (see [Figure 4](#)) and the need to devise and use a wider-lens, ‘stakeholder’ view of corporate performance. This approach has been used (and in some instances, published) by many sustainability leaders around the world, such as AkzoNobel¹² (a European chemicals giant, in 2014), Amata¹³ (a forestry company in Brazil, in 2015), Yarra Valley Water¹⁴ (Melbourne’s water utility, in 2016) and Sveaskog¹⁵ (Sweden’s largest forestry company, in 2018).

Conclusion

Existing “business-as-usual” (BAU) practices do not reflect the dynamism and transparency mandated by evolving political and economic environments. The way companies undertake and report their business in the traditional way does not address some of the most urgent issues (i.e., climate change, economic & social inequity, environmental degradation, etc) at a global level. There is an urgent need to pave the way for corporations to conduct their business, based not on the dominant strategy of chasing scale through excessive leverage, unethical advertising, inappropriate taxation and non-disclosure of client and third-party impacts but on the principles of sustainability. This will enable corporations to identify material operational risks and align their business operations in a manner which mitigates such risks and ensures sustainable long-term profitability.

Multi-capital reporting, such as the <IP<M>, provides the correct lens to measure corporate performance in a holistic and scientific manner – enabling stakeholders to make informed decisions based on relevant metrics. <IP<M> assessments are designed to enable corporations to understand the full value across multiple capital classes it delivers to its stakeholders. This enables the corporation to answer strategic questions such as, “*how does the corporation affect its stakeholders and society?*” and “*what can the corporation do better as a business to add value to shareholders and other stakeholders?*”. This also ensures that corporations are better poised to adapt to emerging risks by design (via mitigation strategies, product innovation, and other transformations) rather than suffer the shocks and incur the costs of internalization by decree or by disaster.

Lastly, a universal valuation framework such as the one described in this note would ensure that *one* standardized approach is adopted by corporations across sectors and industries, to support and enable benchmarking, comparisons and strategies for improvement. It is towards this goal that multi-stakeholder collaborations such as the Natural Capital Coalition (see Natural Capital Protocol¹⁶) and by the Social & Human

Capital Coalition (see Social & Human Capital Protocol¹⁷) continue to lead the way, and proposals to combine them into one “Capitals Coalition” are very much steps in the right direction. Furthermore, the ‘Big-4’¹⁸ auditing and tax firms and some leading companies are reported to have begun work on a mutually agreed capitals framework, methodologies and standards for “Integrated Profit & Loss Reporting”. This is also welcome news, because a single, transparent, publicly available and standardized framework is far preferable to competing, expensive, bespoke “black boxes” offered by competing consultancies. Widespread adoption of such approaches will also require the support of accountancy regulators – national and international – to promulgate standards and to mandate related disclosure requirements.

When all these initiatives bear fruit, we shall truly be in another world: the world of “*Corporation 2020*”. This idea has progressed from being a dream to being a palpable possibility. And as Arundhati Roy said, “*Another world is not only possible, she is on her way. On a quiet day, I can hear her breathing.*”

⁴ <https://www.ncdc.noaa.gov/sotc/global/201813>

⁵ <https://unearthed.greenpeace.org/2019/03/06/global-air-pollution-map-reveals-2000-cities-suffering-from-dirty-air/>

⁶ <http://corp2020.net/>

⁷ The author identifies the 1919 *Dodge vs Ford Motor Co.* ruling by the Michigan Supreme Court a turning point in the history of the corporation. This ruling set precedence and confirmed that the corporation’s sole purpose is self-interest, i.e., increasing the value for its shareholders. As a result, by 1920, we witness the birth of the distinct and dominant corporate model (aka “*Corporation 1920*”), characterized by the highlighted four undesirable characteristics of pursuit of size, limitless leverage, active lobbying and unethical advertising.

⁸ <http://integratedreporting.org/what-the-tool-for-better-reporting/get-to-grips-with-the-six-capitals/>

⁹ <https://www.forumforthefuture.org/the-five-capitals>

¹⁰ <https://www.unenvironment.org/pt-br/node/23957>

¹¹ <http://gistadvisory.com/admin/pdfs/Valuation%20framework%20for%20Business%20Externalities.pdf>

¹² <http://report.akzonobel.com/2014/ar/case-studies/sustainable-business/measuring-our-impact-in-4d.html>

¹³ http://www.amatabrasil.com.br/arquivos/integratedannualreportamata2015_EN.pdf

¹⁴ <https://www.yvw.com.au/about-us/news-room/yarra-valley-water-provides-au724-million-benefits-environment-and-society>

¹⁵ <https://www.sveaskog.se/globalassets/hallbarhet/public-session---integrated-profit--loss-ipl.pdf>

¹⁶ <https://naturalcapitalcoalition.org/natural-capital-protocol/>

¹⁷ <https://docs.wbcsd.org/2017/form/scp-download.html>

¹⁸ the “Big-4” auditing and tax firms are Deloitte, Ernst & Young, KPMG and Price Waterhouse Coopers.

The role of private and public entities in natural capital thinking and governance -

Marta Santamaría Belda

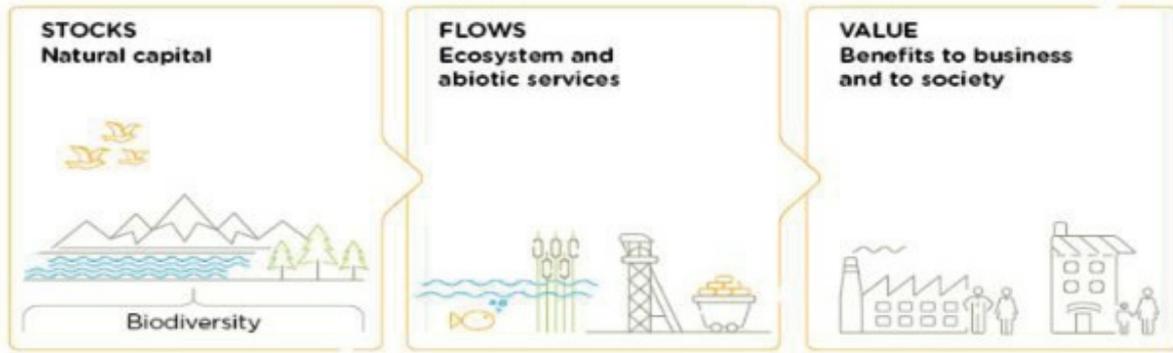
What is natural capital?

'The illusion of unlimited powers, nourished by astonishing scientific and technological achievements, has produced the concurrent illusion of having solved the problem of production. The latter illusion is based on the failure to distinguish between income and capital where this distinction matters most. Every economist and businessman is familiar with the distinction, and applies it conscientiously and with considerable subtlety to all economic affairs – except where it really matters: namely, the irreplaceable capital which man has not made, but simply found, and without which he can do nothing'

Schumacher, 1973

In early 70's, economists such as Schumacher (1973) recognised the fundamental role of natural goods and services in sustaining society's growth and welfare. Forty years after, the concept of natural capital starts to be widely spread and recognized. **Natural capital** is another term for the **stock** of renewable and non-renewable natural resources (e.g. plants, animals, air, water, soils, minerals) that combine to yield a **flow** of benefits to people. These elements and connections are represented in Figure 1.

Figure 1. Natural capital stocks, flows and values



Source: Natural Capital Coalition (2016a)

Natural capital concept shows that nature, society and the economy are interconnected parts within a single indivisible system. A natural capital approach provides a way to better understand how nature underpins society in different ways (human health, prosperity, culture, identity and happiness) and helps to illuminate these values to enable decision makers understand the complex ways in which societies and economies depend on the nature.

Natural capital is one of several other forms of capital, including financial, manufactured, social and human capital. However, within the landscape of capitals, the natural capital plays an underpinning role with respect to the other capitals. The natural capital supports all the other forms of capital by regulating the environmental conditions that enable human life and providing the resources needed to build our societies, economies, and institutions. An integrated view of capitals is needed to have a good understanding of how they relate, and trade-offs between them.

What does natural capital thinking add?

Some of key distinctive elements of a natural capital approach compared to previous environmental or sustainability approaches are:

1) Recognizing dependencies: The environmental movement that started in the 70's as reaction of the burgeoning impacts of humanity on nature, focused its attention on assessing and controlling the degradation of

environmental quality. This was the starting point, but some academics began to claim for the need to broadening to view to also assess how society and business deplete the natural resources that society depend for continued growth. Nowadays, these influences won traction and expanded from assessing just natural resources (oil, minerals, etc.) to also natural processes (water filtration, flood protection, pest control, etc.) that flow from nature and that underpins all human activities: they support the systems upon which our growth, wellbeing and prosperity depend. The natural capital concept recognizes the need to move from just measuring impacts to also assess dependencies on natural capital. This is critical as world's population doubles the size of the one in 1970 when the first claims about the limits of our planet to provide the natural resources needed by society resonated globally. Understanding the underpinning role of natural capital is crucial to assure the provision of services from nature in the long term. A natural capital assessment helps in understanding our relationships with nature, including our impacts (negative or positive effects on nature) and dependencies (our reliance or use of natural capital).

2) Understanding values: A natural capital approach works to illuminate nature's hidden values – whether it be economic, social, environmental, cultural or spiritual, and whether this value is expressed in qualitative, quantitative or monetary terms. Pricing and valuing are different things, although some people think that by putting values to nature there is an intention of commodifying nature. On the contrary, market prices have failed to reflect the value of natural world and there is a need to make them visible to be considered when taking decisions. The valuation is the process of estimating the relative importance, worth or usefulness of nature. It is only when we understand the relative importance, worth or usefulness of something that we make a change and can inform decisions.

iii. Using system thinking: Nature's equilibrium results from the interaction of individual elements that are part of a larger system, the

ecosystems. These are intrinsically complex and changes on parts of it, affect the whole system due to existing interconnections. When assessing our relationship with nature, siloed approaches where elements are assessed in isolation will not provide us with complete understanding of these relationships. To manage these relationships, we need to use a system approach that allows us to understand complexity involved in the natural systems, such as that changes in climate change will affect water availability, and so alter biodiversity and these drives to changes in soil quality, and how these all affect the our health, prosperity and happiness.

HOW business integrate natural into business decisions?

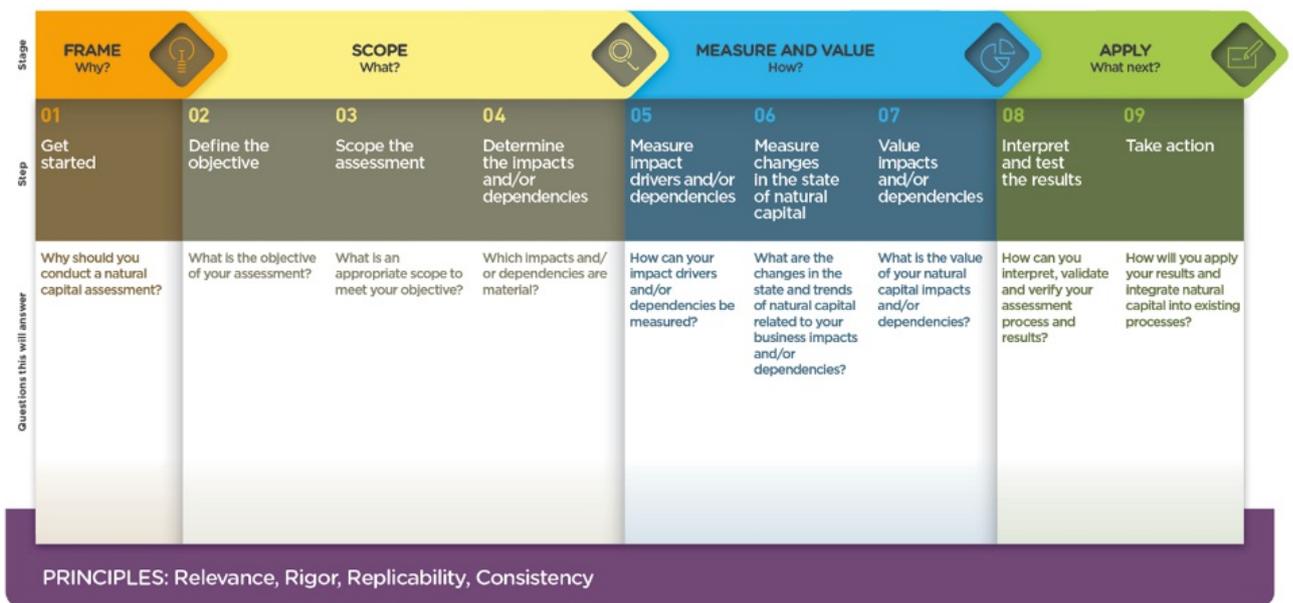
The Natural Capital Protocol, launched in 2016 by the Natural Capital Coalition, is widely recognized as the decision-making framework that enables business to identify, measure and value their direct and indirect impacts and dependencies on natural capital.

All organizations, to varying degrees, are dependent on the natural resources and natural processes, and often these organizations likewise impact on nature. Organizations can be decided to better manage these relationships, but without information about the magnitude and relative importance of these relations, they cannot do it effectively and efficiently. A natural capital approach broadens the information about these relationships and their values, enabling organizations to make more informed decisions with benefits for their businesses as well as communities, society, the broader economy and the natural world.

The Protocol offers an internationally standardized framework for the identification, measurement, and valuation of impacts and dependencies on natural capital in order to inform organizational decisions. The Protocol is helping organizations to include natural capital in decisions by using more consistent, robust and complete data about organizational relationships to natural capital.

The Protocol Framework (Figure 2) covers four stages, “Why”, “What”, “How” and “What Next”. The Stages are further broken down into nine Steps, which contain specific questions to be answered when integrating natural capital into organizational processes. Although set out in a linear way, the Protocol is iterative and allows users to adjust and adapt their approach as they progress through the framework.

Figure 2. The Natural Capital Protocol Framework



Source: Natural Capital Coalition (2016a)

The Protocol is applicable within any business sector, to organizations of all sizes and in all operational geographies. The Protocol is also applicable at multiple organizational levels and scopes, for example at a product, project or organizational level.

The Protocol is action oriented and so it describes how the results from measurement and valuation can be integrated into existing business

processes (such as risk mitigation, sourcing, supply chain management and product design) to inform business decisions and act upon them.

The Protocol builds on a number of approaches that already exist but focuses its attention in the whole decision process and provides references to additional guidance that could help practitioner to complete the Stages and Steps of this Protocol. The Protocol is not prescriptive and all available natural capital tools and methodologies are compatible with an application of the Natural Capital Protocol, for instance, those found on the [Natural Capital Protocol Toolkit](#).

The Protocol focuses on improving internal decision making and so, it is not a formal reporting framework. As the Protocol is not prescriptive in the choice of measurement and valuation approaches, results may not be comparable within or between different businesses and applications and so, cannot be considered a reporting framework. Nevertheless, some companies may wish to report their findings and they are encouraged to do so.

The four Stages of the Protocol corresponds to the four basic questions that any decision maker should face when taking a decision. The essence of each of Stages is briefly described below.

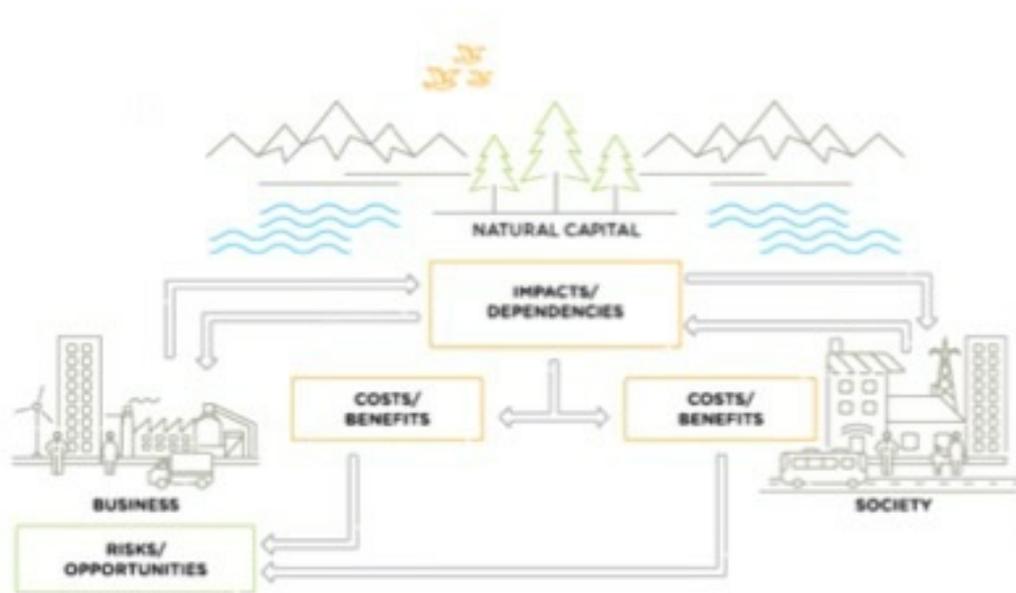
FRAME STAGE: Why?

Why does business need to include natural capital in its decisions? Business interactions with nature has been largely seen as something external to them as companies were for some time not significantly affected by them. However, there are some drivers that may lead to such externalities to be internalized starting to affect the market value of companies, the price of their products or the price they pay for materials they use or their risk profile. These drivers could be of different nature, from an increase on regulatory or legal action, market forces and changing operating environments, new actions by and relationships with external stakeholders, plus an increasing drive for transparency or voluntary action

by businesses because they recognize the significance of transparency to future success.

All these drivers change the risk profile of companies, as well as create opportunities for those that find the way to respond to these forces and provide successful solutions. A good understanding of the impacts and dependencies on natural capital and their consequences in terms of costs and benefits for the society and business is the best way in which companies can manage the risks and opportunities faced by them as consequence of the societal and stakeholder response to them. All these elements and their connections are reflected in the conceptual model represented in Figure 3.

Figure 3: Natural capital impacts and dependencies: conceptual model for business

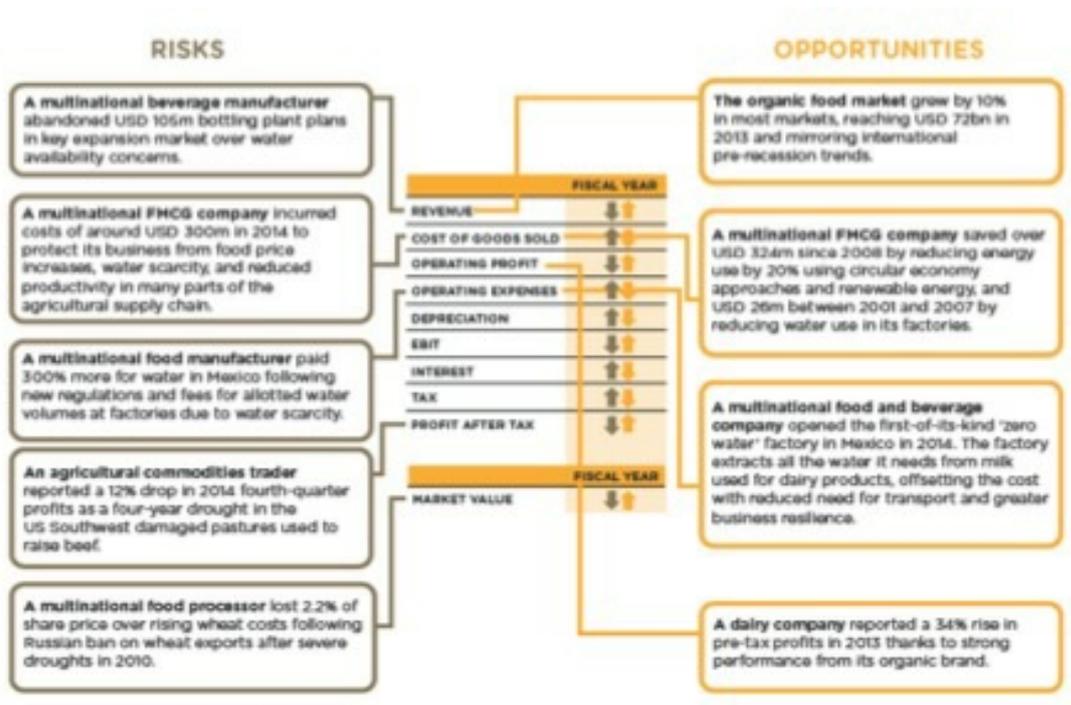


Source: Natural Capital Coalition (2016a)

The motivation of business to undertake a natural capital assessment is based on identifying the risks and opportunities that arise from impacts and/or dependencies on natural capital that might be invisible, overlooked, misunderstood, or under-valued. Natural capital risks and opportunities can

arise in all areas of a business: operational, legal, regulatory, financing, reputational, marketing, and societal. Figure 4 presents examples of different risks and opportunities experienced by real (but anonymized) food and beverage companies that shows the business case for undertaking a natural capital assessment.

Figure 4. Examples of natural capital risks and opportunities for food and beverage companies



Source: Natural Capital Coalition (2016b)

SCOPE STAGE: What?

Organizations can define the scope of their assessment by responding to several key questions, such as:

1. **What is the objective of your assessment?** Identifying the *audience* and *stakeholders* to engage with help organizations to define the objective.
2. **What is an appropriate scope to meet your objective?** Organizations can identify their right scope by responding to some questions, such as: whether to conduct an assessment at product, project or company level; whether to look at

business operations or expand to assess upstream and/or downstream activities; whether to assess the value for business and/or the value to society; whether to use a qualitative, quantitative or monetary valuation approach.

3. **Which impacts and dependencies are material?** Organizations can use different criteria to identify those aspects whose value could be significant enough to alter decisions. The Sector Guides to the Protocol provide examples of materiality matrices for different sectors. As an example, Figure 5 shows an indicative materiality matrix of for the value chain of barley used to produce beer. This Figure is a good way of showing the comprehensiveness of a natural capital assessment: encompassing both impacts and dependencies, across different stages of the value chain.

Figure 5. Indicative materiality matrix for the value chain of barley used to produce beer



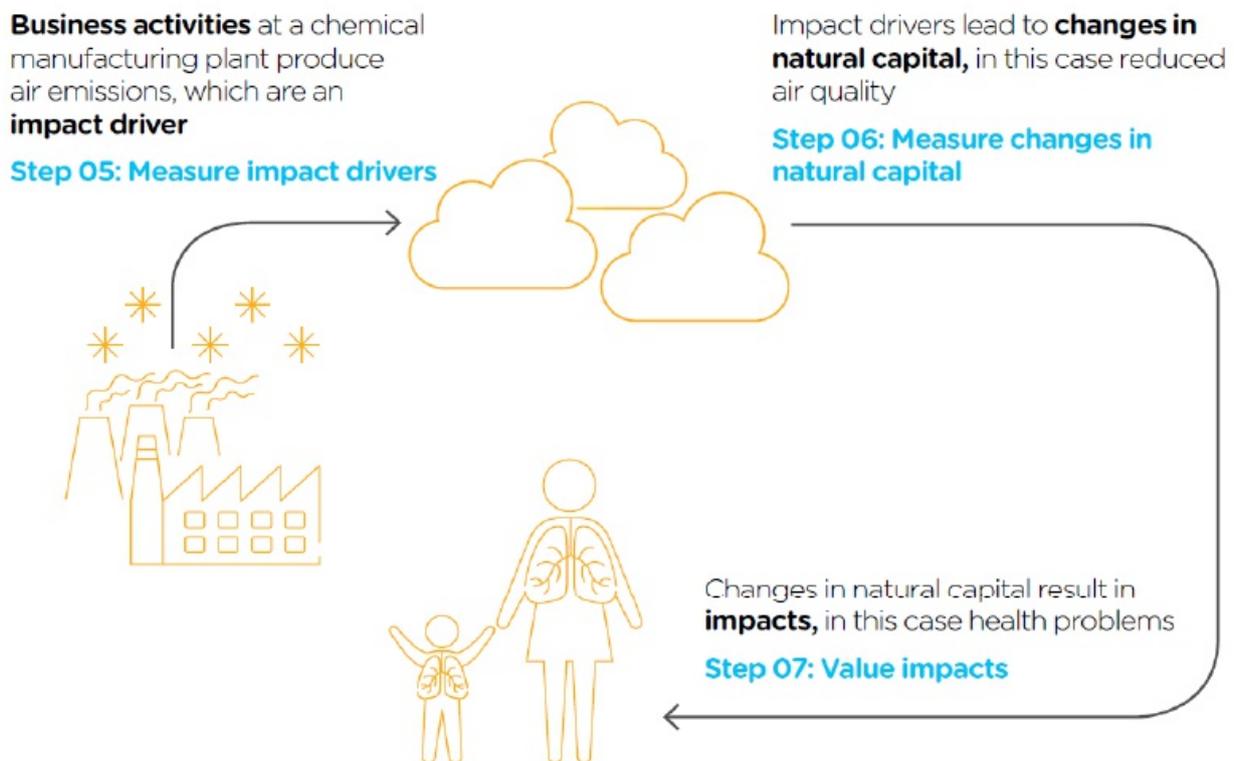
Source: Natural Capital Coalition (2016b)

MEASURE AND VALUE STAGE: How?

Organizations can estimate the value of their impacts and dependencies following a three-step approach, called impact or dependency ‘pathway’.

In the case of impacts, an impact pathway describes how, as a result of a specific business activity, a particular impact driver results in changes in natural capital and how these changes impact different stakeholders. Figure 6 illustrates the impact pathway for air pollution, a classic non-product output of industry. In this example, the business activity is the manufacture of industrial chemicals, which results in the emission of certain pollutants (the impact driver). These emissions lead in turn to a reduction in air quality (the change in natural capital), which may have significant impacts on various people depending on the local environment (the impact) that can be valued.

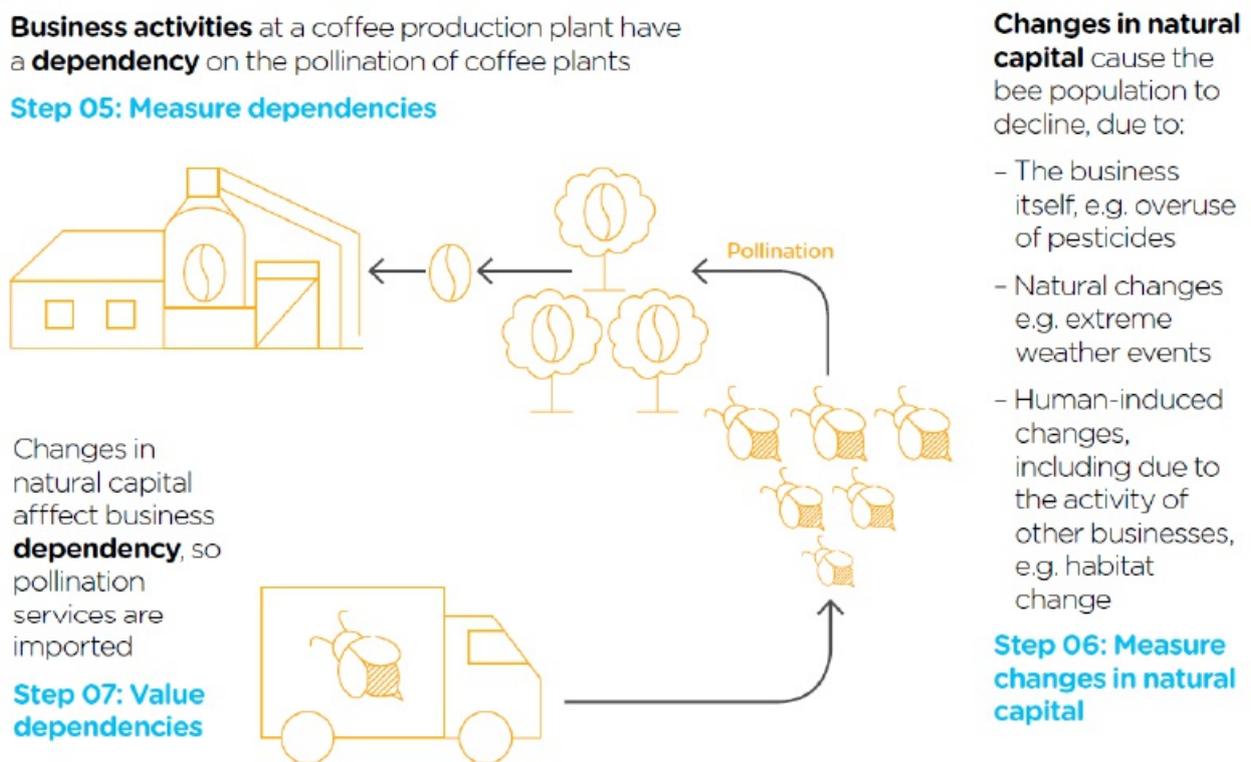
Figure 6. Generic steps in impact pathway



Source: Natural Capital Coalition (2016a)

A dependency pathway shows how a particular business activity depends upon specific features of natural capital. It identifies how observed or potential changes in natural capital affect the costs and/or benefits of doing business. Figure 7 illustrates a dependency pathway using the pollination of coffee plants as an example. In this situation, a decline in the populations of wild pollinators (due to deforestation) results in lower yields and/or additional costs to coffee producers, who may be forced to rely on commercial pollinating services.

Figure 7. Generic steps in dependency pathway



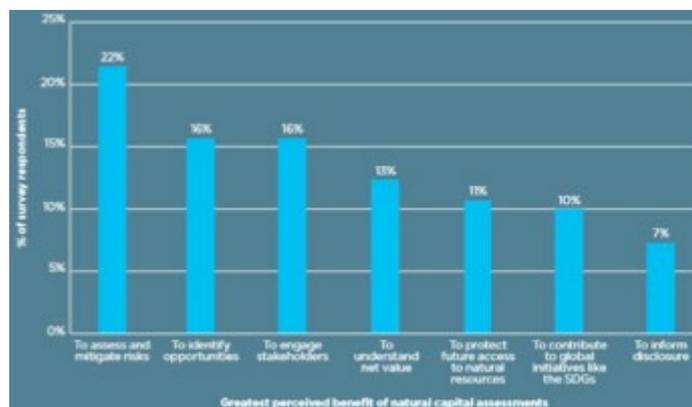
Source: Natural Capital Coalition (2016a)

APPLY STAGE: What next?

Last stage of a natural capital assessment consists on interpreting, applying, and acting upon results in the business, determining how to communicate them to inform decisions and engaging stakeholders, and how to build natural capital assessments into company's policies and processes on an ongoing basis.

Many companies are already applying the Protocol and sharing their findings through the Natural Capital HUB. The Coalition is conducting annual global surveys on the progress of natural capital thinking and summarized in the publication THIS IS Natural Capital (Natural Capital Coalition, 2017, 2018). Figure 8 shows the results of the greatest perceived benefits of natural capital assessments in 2018 by businesses. Results highlight that businesses are using natural capital assessments primarily to inform internal risk identification and management. The identification of opportunities, and engagement with stakeholders are also important applications. Stakeholder engagement experienced an increase in the last year as this did not feature as highly as in 2018. Outward looking applications like articulating a contribution to the SDGs, or disclosure, are still featuring lowest but, presumably, this this change in coming years.

Figure 8. Greatest perceived benefits of natural capital assessments by business



Source: Natural Capital Coalition (2018)

HOW governments integrate natural into decisions?

The discussion on how to measure and assess natural capital to inform national governments and policymakers started in the late 60's. This discussion focused attention on the need to improve national accounts and their aggregate indicators (GDP, etc.) to better reflect the contribution of natural capital to growth and welfare (Nordhaus and Tobin 1972, Mäler, 1991, Hamilton, 2000, Hanley, 2001, Heal and Kristom, 2002, UNU-IHDP and UNEP, 2014).

Policy makers use national accounts as the basis for decisions as they provide a systematic framework to collect information and show connections between sectors and agents of the economy. Besides, the information is collected periodically and, thus, allows countries to measure trends over time.

Since the early 70's, many different approaches to integrate natural capital into national accounts and aggregated indicators (wealth, savings, etc.) has been proposed. They could be classified into three main categories:

a) **Natural resource or asset accounts:** They are intended to measure to what extent the natural resource consumption pattern of a country is sustainable overall. These accounts are focused on measuring stocks of natural resources and their evolution along time. These accounts encompass statement for a large range of resources, including: timber, mineral, energy, land, soil, water, aquatic and other biological resources. These accounts can be measured in physical terms (e.g. volume of wood in forests, m³) and/or monetary terms (e.g., market value of wood stored in forests, \$). When they are expressed in monetary terms, the resources are valued based on market exchange prices.

b) **Flow accounts** (or satellite accounts), which are mainly focused on accounting for inputs of natural resources consumed by the economy (e.g. energy and water) and outputs from the economy (e.g. air pollution, water discharges or waste generation). Compared to the previous ones, these accounts provide information for all economic sectors, keeping the same structure as conventional national accounts. When accounting for the outputs, these accounts provide information about different impact drivers (pollutants, discharges, wastes, GHG emissions, etc.) expressed on physical units and, thus, not measuring which are the changes on the state of natural capital derived from them and neither the value of these impacts on population welfare (health, yield, etc.). Within flow accounts, there are also some 'experimental' or more innovative initiatives trying to value the flow or use of other non-market ecosystems services used by the economy.

c) **Environmental activities accounts:** this statement gathers information about total expenditures on environmental protection (prevention of degradation), environmental restoration and environment related transactions (such as taxes, subsidies or penalties).

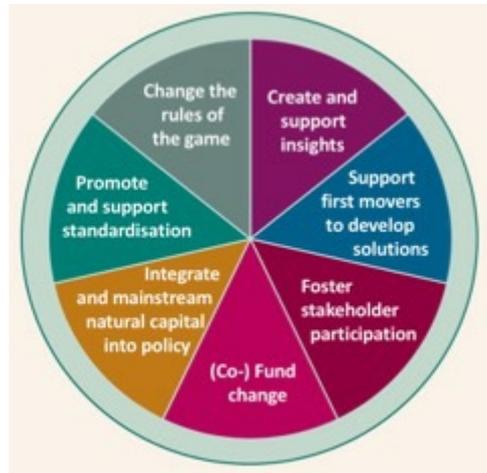
The United Nations have been working since the early 90's on harmonizing existing proposals to integrate natural capital into national accounts, whilst ensuring compatibility with existing standards in the

System of National Accounts. The result was the publication of the System of Environmental-Economic Accounting, the SEEA (UN et al., 2014a, 2014b). This accounting framework is now considered to be the global standardized approach to integrate natural capital into national accounts to help policy makers in their decision-making process. The World Bank has supported the application of the SEEA in different countries, through their WAVES program, resulting in a large list of country case studies and policy applications of the information (WAVES, 2018).

The SEEA framework help governments to create and support insights on natural capital to better understand the relationship of economy and nature and promote a dialogue on natural capital values. This is one of the ways in which governments are mainstreaming natural capital but there are other ways in which government act on natural capital and help to create an enabling environment for natural capital approaches, as described in ‘Natural Capital for governments: what, why and how’ (Lok et al. 2019). These levers of governmental actions include (Figure 9):

- Support firms movers to share knowledge and develop upscaling tools, solutions, etc.
- Fostering stakeholder participation and promote public-private partnerships
- Co-fund by creating new investments in specific ecosystems or ecosystem services
- Integrate natural capital into policy by developing indicators and institutional links.
- Promote and support standardization of tools and methods and Open data in all sectors.
- Changing the rules of the game through incentives, protection or disclosure frameworks.

Figure 9. Ways of governmental action on natural capital



Source: Lok et al. (2019)

Combining forces on natural capital

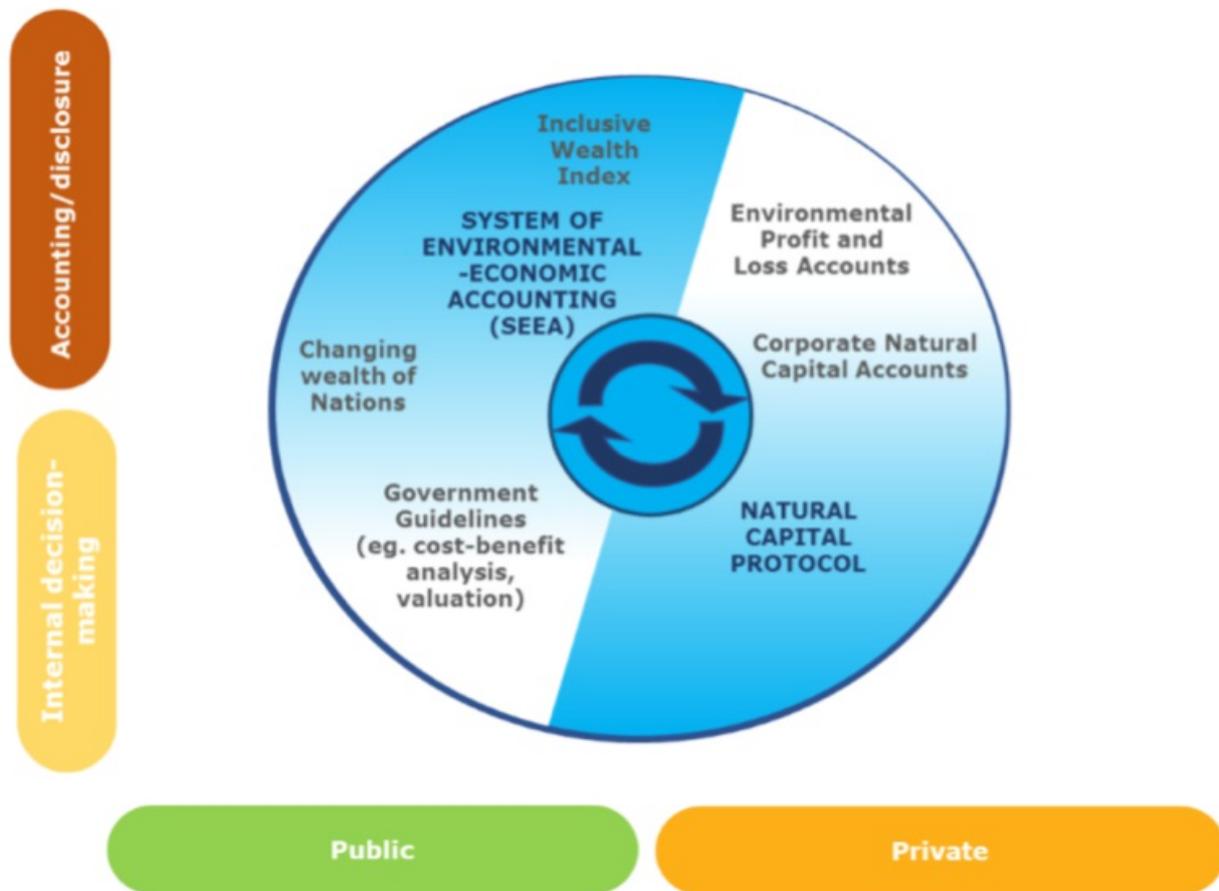
Decisions cannot be taken without information. Decision makers collect and structure sets of information based on their needs and the information systems already in place. In the public sphere, historically information about natural capital has been quite fragmented but, in the advent of the SEEA, progress is being made in better integrating available data and indicators. In addition, policymakers also conduct ad hoc assessments to evaluate the consequences of specific policies (e.g. cost-benefit analysis of large infrastructure projects or Environmental Impact Assessment of long-term planning documents or government strategies).

Similarly, corporates can use ad hoc frameworks or more standardized accounting approaches. In the organizations within the Natural Capital Coalition, it seems that there is a common use of ad hoc frames but some companies are progressing towards a more structured and systematic collection of information at the company level, sometimes reported publicly

by using Environmental Profit and Loss Accounts or Corporate Natural Capital Accounts.

The use of standardized economic accounting frameworks (either national accounts of countries or financial accounting of corporates) has facilitated the comparison between different countries and companies, leading to processes of transparency that foster national and international decision-making and private investment processes. Decision making process and context in both public and private spheres differ resulting in some differences in the natural capital approaches mainly used by them. As shown in Figure 10, the public sector is mainly focused on building accounts by using the SEEA framework, while the private sector mainly uses the Natural Capital Protocol to inform their decisions.

Figure 10. Interrelationship between public and private natural capital approaches



Source: Spurgeon et al. 2019

As has been described, many approaches to natural capital in the public and private sector have been developing for some time and there is a substantial body of technical experience and expertise. However, these approaches have been developed quite independently, with little focus on integration or alignment.

In recognition of this, the ‘Combining Forces’ program was established to bring together the public and private sectors’ thinking on natural capital (Natural Capital Coalition, 2017). The objective of Combining Forces is to foster a greater mutual understanding of different approaches to the

assessment of natural capital and to co-ordinate efforts to ensure that our relationship with nature is accounted for and included in decision-making. At the core of Combining Forces is the belief that single and disparate voices on natural capital will not be sufficient to make the systemic changes in decision making that are needed.

Report: *The challenge of the new technologies*

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The general framework

Technology is the outcome of a progress which often has a disruptive impact on the development of society, leading to ambivalent consequences. The introduction of technology in the productive process can cause a loss of jobs due to the automation of tasks, but can also lead to economic growth, due to the increase in productivity, and hence to the creation of new jobs. *Technological anxiety* concerning automation and the related loss of jobs is increasing, to the point of forecasting the almost complete substitution of human work with machines. This scenario might seem far in the future, but surely new tech superstar firms feature very large per-worker productivity, that could lead to a further polarization of society, avoidable only with redistributive policies.

Our round table has discussed several social applications of new technologies, from social crypto currencies (Faircoin, assumingly returning monetary power to the people), to networks of organizations such as NEMO, aiming at enhancing inner areas (in particular, mountain areas) by providing customized digital solutions. These are contexts in which a “social” use of technology has among its *explicit* aims the creation of new jobs which would

not exist otherwise. These themes question the adequacy of purely top-down policies for territories, and also raise important questions, such as: is the job that follows people or people that follows the job?

Another fundamental social challenge which is strongly related to new technologies is that of environmental sustainability: is “green growth”, as indicated by the European Commission in the Agenda 2020, a viable solution, or only an ineffective compromise between opposite industry interests? The role of the state is fundamental in order to guide this transition. It must be able to listen to local needs and promote e-participation and social inclusion. At the same time, it must be an “Entrepreneurial State” able to steer progress towards cleaner and possibly more inclusive technologies, also through re-skilling of workers. Finally, new technologies provide innovative tools for the functioning of the State itself. Machine learning methodologies can be considered for public policy evaluations, so as to make them more effective. It is clear that, depending on the scope of use, transparency and discrimination issues may arise.

Key issues and policy recommendations

1. Data and software ownership

Citizens of advanced economies daily produce large amounts of data, typically with very limited awareness, and no control, about who - and for what aim - will use, sell and elaborate them. In so-called “Smart cities”, citizens are becoming “human sensors” without any approval request, and data typically flows to the servers of the private companies having installed the required technology. Technicians enjoy a privileged position due the fact that only they have the required instruments and knowledge to access and use data and technologies: this naturally creates an unbalance of power. This unbalance can be greatly amplified by issues of *software* ownership and availability. In any context where a number of network appliances work in coordination, there must be common protocols and softwares allowing

them to do so. If the software driving them is proprietary and available only to one producer, such contexts - be them a heavily automated production plant, or an ordinary kitchen populated by Internet-enabled appliances - become natural monopolies. This problem can be solved only by enforcing the adoption of common standards, and recognizing the importance of Open Source/libre software (OSS). OSS not only lowers barriers to access for firms, but also guarantees users/owners the right to understand what happens inside their devices, including which data are distributed to whom. Moreover, it enables third parties to audit the source code and detect security issues, and reduces the overall cost of writing software, by avoiding replication. Finally, in the context of public bodies and associations, OSS is an essential tool for a democratic control of data storage and use, which can also lead to drastic savings for the Public Administration: and this is why relying on centralized repositories of OSS must become the norm for public bodies. The creation of intermediate bodies involving civil society representatives, as a bridge between data and technologies and citizens, is auspicious. Such organs, acting in the same vein as specialized, and officially recognized, Consumers's Associations, should i) facilitate awareness on current data use and potential for the collectivity, ii) monitor the use of technologies and the flow of data, iii) ensure the protection of users' rights according to existing laws, iv) look after legal enforcement in infringement cases (for instance through class actions).

2. *Technological progress: risk and opportunities for public policies*

The State is a fundamental actor in guiding and coordinating technological transitions. Specific challenges are posed by the different needs of local communities on one side, and of technologically advanced production systems, on the other. Communities can be emarginated and/or radically disrupted by technology. In order to avoid this, local instances should be part of public policies, in a bottom-up

process favouring e-participation; such policies will ideally incorporate innovations aimed at enhancing quality of life in specific territories and communities. At the same time, focused top-down interventions should provide the required infrastructures, aiming at reducing the digital divide, and guaranteeing the right to access to all.

Modern productive and industrial system requires the state to assume an active role, investing in and/or promoting innovation and green technologies, while at the same time guaranteeing the *social* sustainability of the industrial transition. In this regard, the provision of continuous training and reskilling of workers is required, in order to accommodate the changes in production in a way that enhances workers' role rather than endangering it.

3. *Technological anxiety and Digital dividend*

Today *technological anxiety* is rising, regarding the loss of jobs due to automation. The extent to which such anxiety is empirically founded however needs to be much better investigated. Available data shows that, for instance, the industrial transition undergoing in the manufacturing sector is gradual, and does not imply the disappearance of jobs but rather their reconfiguration. Even if potentially revolutionary practical applications already exist (i.e. delivery drones, complex robotics), they might have a limited effect on the industrial fabric. Specifically, automation focuses on specific *tasks*, of which a *job* includes many different; thus, it does not necessarily result in the complete substitution of a worker, but rather in a redefinition of her job. This said, the literature on the topic includes different positions (for instance Atkinson vs Frey and Osborne), which makes detailed empirical assessments about the intensity of the industrial transformation even more important. In any case, it has been recognized that software and machines represent a new, central, form of capital, with potentially huge effects in terms of wealth distribution -

what is referred to as *digital dividend*. This tends to increase inequality within societies, and polarize them. As a consequence, structural redistribution policies are an urgent issue, possibly in the form of new kinds of taxation on physical and economic capital. Additionally, a reduction in working hours, and more in general an incentivization of smart work could be good measures not just to enhance job quality, but also to redistribute working hours.

Report: *The socio-economic value of natural capital: implications for social justice*

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The general framework

The debate on socio-economic implications of natural capital allocation cannot neglect sustainability. The general tendency, while approaching sustainability matters, is to attribute a monetary value to immaterial services and entities of shared common interest, such as common services and goods. Although a value can always exist without a price, the opposite is not true. Putting a price tag on nature and using the lexicon of the market (price, capital, etc.) can result in the commodification of natural resources and the distortion of their very nature. Yet, valuation and value attribution are crucial to the correct allocation of common goods, and it should be done through proper measurement of both their economic and non-economic value, despite solid metric for the latter are still missing. Reflecting on the implications for social justice related to the socio-economic value of natural capital, three major key issues emerged concerning the generally accepted valuation of natural resources as factors of production. All these key issues

impose a modification of current exchanges occurring between natural and social processes (including current models of production and consumption), in order to reconsider the dynamics of human-nature interactions on a finite planet (Rockström et al, 2009) and propose new societal responses to current patterns of nature appropriation.

Key issues and policy recommendations

1. Re-affirming the community value of natural resources

This key issue concerns the community value of natural resources, often left behind in favor of the economic value. Valuating natural resources through the ‘community’ paradigm implies the recognition of the inherent value for a community of the goods and services provided by the nature, and it is a process embedded in the specific social and cultural reference context. Community-based management of natural resources exists around the world, but what is still lacking is a legal framework that recognizes the ‘specialty’ of those goods and services provided by nature as self-generated natural and social resources. Recognizing that those goods can be accessed by the community, without any market mediation, calls for a change in the current appropriation paradigm, which is based on the private-public dichotomy (Rodotà, 2017). Related to this is the devolution to some state functions to the lower/intermediate level of governments, with the engagement of citizens, and the re-appropriation of the management of services of public interests (such as water and energy distribution, progressively outsourced by the state to private actors) by the community (through public or hybrid public-private companies). Consequently, a possible policy option to deal with the aforementioned key issue is a paradigm shift in the existing conceptions of property rights over natural resources, which must take into account the current situation of abundant capital (private wealth) and dramatically weak ecological commons (Capra and Mattei, 2015). In other words, what is

needed is a new statute of the commons, based on legal rules and institutional procedures that give commons adequate legal protection.

2. *Merging the three pillars of sustainable development in an holistic way*

A second key issue is the lack of integration among the three pillars (environmental, economic, social) of sustainable development as originally defined in the Brundtland Report (Brundtland et al, 1987). These pillars are not considered in a holistic way in decision-making processes, with the social dimension being addressed only marginally. Yet, the *2030 Agenda for Sustainable Development and 17 Sustainable Development Goals (SDGs)* commits the global community to “achieving sustainable development in its three dimensions- economic, social and environmental – in a balanced and integrated manner” (United Nations General Assembly, 2015). Starting from this premise, a possible policy option to integrate, and balance, the three dimensions of sustainable development in decision-making, especially when decisions are taken on the use, consumption and protection of natural resources is to conduct a full spectrum, tripartite, assessment. Making this assessment can be complicated, but it is needed to evaluate the overall implications of decisions taken in different fora (public/private; national/international) affecting natural resources governance. Future research efforts should be directed towards identification of indicators and procedures that are able to assist decision-makers in this assessment process.

3. *Re-designing current formal and informal educational paradigms*

A third key issue, which can be actually considered transversal to the others, is about current formal (i.e. curricula in education institutions) and informal (e.g. through family, or other non-institutionalized channels) educational and learning programs. Although considerable progresses have been made in the incorporation of sustainable development into the curricula of education institutions,

at least in advanced industrialized countries such as the EU, US or Canada, still much needs to be done to develop eco-literacy and eco-civism worldwide. Even in the EU, where higher education institutions have included research competences for sustainable development through pedagogical approaches that are at the vanguard, sustainability competences can be better developed in class (Lozano et al., 2019), and beyond (e.g. promoting adult continuing education and training of professional). A genuine eco-civism can only emerge if everyone achieves at least some basic degree of eco-literacy (Capra, 1993) and lives accordingly (i.e. become an eco-citizen). In order to achieve this goal, sustainability competences/knowledge must be promoted in national education systems, among professionals and through informal channels of learning (e.g. through the media or internet).

Part III – to ENABLE

Solidarity economy and anarchism: what to do with the *State form*? – Bruno Frère & Laurent Gardin

Many are the people who still go on linking the claims of solidarity economy to soft unrealistic utopias. Anyway, we will leave to their cynicism the most orthodox economists who remain convinced that it is logical for the political world to bow to the economic dictates of banks (as Greece, destructed by the treatments of successive austerities imposed by the ECB, knows very well). In this chapter we would like to show that the solidarity economy as a global economic program has never been a “spiritual” entity. Such a restoration of economy to civil society has indeed already been envisaged and tested by a serious political movement, which enjoyed some success in the middle of the 19th century, when the capitalist organization of society had not yet achieved the hegemonic power of the present day, whether in Europe or across the Atlantic (Schneiberg, 2007). It is the libertarian socialism that, like the contemporary solidarity economy, was not so much aiming at the disappearance of the state, or of any instance of supra-local coordination, as at the end of capitalism.

If, therefore, the capitalist order of the world is still firmly established, at present we can notice traces of rebirth of this libertarian impulse. We will try to discover at first the libertarian economy that emerged in the 19th century in order to appreciate the possible parallel. We will show that it was based then on some great ideas that are quite easily spotted also in the principles of structures and networks of contemporary solidarity economy: self-management, collective ownership of means of production, political

participation, etc. In a second step, we will try to show how a serious reflection on the libertarian socialism cannot today be deprived of a question already crucial at that time: what place we should grant to the State or to any form of collective organization related to it. We will then try to show that a serious problematization of this redefinition of a federative and radically democratized form is urgent within the libertarian thought.

From libertarian economic socialism and mutualism...

The libertarian socialism or anarchism was born in the 19th century, even though libertarian conceptions and practices had already been present in ancient times and among certain primitive societies. Usually we distinguish amongst different anarchist currents, ranging from anarchist individualism to anarcho-syndicalism through libertarian communism. The strongest ideological references are embodied by Stirner, Proudhon, Bakunin, Kropotkin or Godwin and Warren, as far as the English and North American precursors regards. Beside resorting to great authors or wide currents, we can be interested in the anarchists' practices in order to grasp the links with the solidarity economy. Gaetano Manfredonia (2007) has thus proposed a sort of social change conceptions using the Weberian method of the ideal kind. The insurrectionary kind, aiming at the revolutionary rupture from an active minority that sharpens social conflicts and can resort to violence to cause the collapse of capitalism and the State, is only one of the models of social change among anarchists. Two other models, the syndicalist kind and the educationist-accomplisher kind, reveal the peculiar features of the insurrectionary model, that often attracts the highest attention.

It is true that these are ideal categories and that, in their practice, activists do not fit into just one conception. As Manfredonia points out, the action of the revolutionary syndicalists of the CGT (Confédération Générale du Travail) in France, at the beginning of the 20th century, like that of the anarcho-syndicalists of the Spanish CNT (Confederación Nacional del

Trabajo) before 1936, was not limited to trade union action and the preparation of the mass strike, but had also educational aspects whether through the Bourses du Travail in France or the libertarian schools in Spain. On their side, the followers of the insurrectionary model can enjoy daily cooperative practices even if they do not consider them fundamental in terms of social change. Although Proudhon has widely influenced the trade union movement and was ready to defend the revolutionaries of June 1848, through mutualism he was undeniably one of the most important authors of the educationist-accomplisher kind. This kind of practice of libertarian socialism is similar to the contemporary practices of solidarity economy and is sometimes analyzed in terms of libertarian practices and principles (Gardin 2006; Frère 2009; Pereira 2009, p. 101; Lenoir 2012; Corcuff 2012). It is a matter of mutual aid in the realization of economic activities to be formed within a perspective of emancipation from the influence of market and public powers. This dual socio-economic and socio-political dimension is consistent with the practices of solidarity economy (Eme e Laville 2005; Gardin e Laville 2017). Taken singularly, the contemporary structures of solidarity economy resemble the initiatives of the association movement analyzed and promoted by Proudhon in the 19th century. The father of anarchy, as he is often qualified, was at the same time at the origin of the new practices in associationism and of a theorization of these ones through mutualism, while being critical towards other theoreticians and practices leading sometimes to a rejection of associationism contributions that cannot be ignored.

In France, Proudhon founded the Banque du peuple, that would be based on an alternative local currency. Like the National Equitable Labour Exchange of Owen, England (1865), we can consider this People's Bank as one of the first modern experiments in social currency. Moreover, Proudhon also theorized mutual interest-free credit (or "free credit"), the ancestor of solidarity finance, by studying certain rural practices of the time, aimed at

allowing small farmers to buy the land they cultivated. The “Caisse de credit mutuel” was thus intended to finance agricultural cooperatives against the first major industrial consortia (1851, 1846).

Frequently Proudhon evokes in his texts the Ateliers Canuts, true ancestors of workers’ cooperatives who tried to resist big manufactures and struggled against the merchants to escape the international price (very low) that they were trying to impose on their goods, seeking also local markets for their products (Frère, 2017). Not far from contemporary proximity services, the Canuts also made a point of recruiting little or not qualified workers to train them in the silk trades and, in the best case, integrate them into the management and ownership of the workshop.

All these initiatives were for Proudhon suitable to reassemble at a regional and then national level, to give life to federal economic governments whose elected members would have only revocable short-term mandates, so as to ensure a permanent rotation of representatives. This economic federation should have the responsibility of coordinating at the regional and federal level activities, exchanges and all the macroeconomic regulations through the application of justice principles to economy, developing the principle of reciprocity against the market exchange. The central place given to the reciprocal economic behaviour between groups of producers and consumers recalls also the plurality of Polanyi’s economic behaviours, whose progressive theses published in *La grande transformation* (1983) foreshadow the socio-economic democratic dimension of solidarity economy.

It is in fact this principle of reciprocity which is destined to rule the workers’ organizations internally (Proudhon, 1865, 1846). These principles have been summarized and synthesized to define the standard format of an associative or cooperative enterprise that may also frame contemporary solidarity economy structures (Frère, 2017): helping members of local communities by integrating their representatives; self-managed democracy;

social ownership of capital and means of production; primacy of people over capital in the redistribution of profits; rotation of management tasks; salary fairness; anti-capitalist commitment...

Thus resorting to Proudhon to analyze the association movement is not an immediate choice. First of all, we must remember that Proudhon, while seeking to construct a theory of association, was at first very critical towards the idea of association which refuses to create an “absolute system” as did the socialist reformers Cabet, Leroux or Louis Blanc (Proudhon, 1851, p.158). In this respect we can recall his misogyny towards the political action of women engaged in associationism, at the forefront of which is Jeanne Deroin, founder of the “Union des Associations”. But we should also remember the severe record he drew about the proliferation of associations in 1848. He noted that while there had been several hundred labour associations in Paris in 1850 and 1851, barely twenty remained in 1857 (p. 474). According to him, this failure was explained first of all by the naive and illusory thought of these associations, whose weakness he criticized. He thought that it was not enough to do without bosses and take their profit, because this represented just a 10% increase in wages in a large factory, according to his calculations. It was also necessary to radically question “the fruit of inexperience and prejudice, the accomplishment of the ideas of centralization, community, hierarchy, of supremacy, the political activity [which] would be quick in creating division and discouragement” (ibid., p. 473). For him, not considering the principle of free credit and reciprocity was the most obvious indication of this inexperience and of the faith in parliamentary centralism maintained until then by associationism. This absence largely explains the economic failure of the associations, with their inability to train men likely to be able to really do without their exploiters. Furthermore, we should note that he could have mentioned amongst the causes of the failure of these experiments the repression of which men or women promoting this change were victims, due to a Napoleonic state

policy definitively devoted to capitalist private property and the opening of French markets to international competition.

If Proudhon was indeed at first critical, the denunciation of Riot-Sarcey (2016) of his break from the labour practices seems excessive. As we have mentioned, we know that Proudhon theorized mutualism starting from the Canuts practices (Ansart, 1970; Frère, 2017) or that, at the beginning of the second republic, workers solicited him to provide an answer to the social question, leading him to launch the People's Bank. The link with the associationist labour movement was such that Jeanne Deroin's newspaper, *L'opinion des femmes* (1849, p. 8), which couldn't be charged of complacency towards the misogynist Proudhon, reported with pleasure the increase of women's names associated with the shareholders of the said cooperative bank.

After 1852 Proudhon became definitely an associationist. It is not this reason, therefore, that can shatter the comparison of his theory with that of solidarity economy. In fact there seems to be a deeper limit to understanding the solidarity economy from a libertarian perspective: many solidarity economy structures in fact enjoy a state support, or at least public subsidies (local or national) that allow them to carry on their activities (this is particularly the case for cooperatives that provide a range of local services). Some even see local elected representatives sit on their boards. However, it is customary to emphasize the insistence with which anarchists in general, and Proudhon in particular - especially after his experience in the *Assemblée nationale* (1851) - criticized representative democracy.

But does this mean that Proudhon did not envisage that any form of "State" was conceivable and necessary for a mutualist economy to grow? Not at all. And this is the undertone that Proudhon brought to his analysis of the federal State, which the most dogmatic anarchist commentators, whom we advise to approach now, often feign to ignore. Because it is perhaps by the yardstick of these that we will be able to consider the

practices of solidarity economy which, sometimes, intend to work in harmony with the public action.

... to the question of a democratic and federalized “State” form

As with economic power, Proudhon wishes to give a radically democratic and self-managing inflection also to political power. In this respect, he will continually refine his position, particularly in the *Principe fédératif* (1863), on the relationship between freedom and authority. Using the serial dialectic of putting two poles in tension, he wants to limit the authority of the state without denying it. The government is then subordinated by “the representatives or institutions of Liberty, namely: the Central Power by the deputies of the departments or provinces; the provincial authority by the delegates of the communes; and the municipal authority by inhabitants; thus freedom aspires to become preponderant, authority to become a servant of liberty, and the contractual principle to substitute the authoritarian principle in every form of public affairs” (1863, p. 81). Through his concept of contract, Proudhon underlines that the elements of the federation or confederation do not submit to the same federation or confederation, and thus rejects “any measure or initiative aimed at strengthening the power of the federal state or federation and thereby compromising the (political) sovereignty of the contractors, on which his federalist theory is based” (Caglio y Conde, 2011, p. 292).

This political federalism dialogizes with the economic federalism based on mutualism which we mentioned above. The State then becomes an actor among other actors. “The State has retained its power, its strength (...) but it has lost its *authority* (...) If we can say so, it is itself a kind of citizen, a civil person like families, trade companies, corporations, communes. Just as it is not the sovereign, it is not a servant either (...) it is the first among equals” (Proudhon, 1860, p. 68). Proudhon’s legal thought is a thought of diversity. “Abandoning the monistic scheme of the law, Proudhon invokes the noisy

dialectic of a pluralistic society, in which each individual, each group, participates in the determination of the general interest” (Chambost, 2004, p. 247). From a broader point of view, the pluralist management of public affairs evoked by Proudhon is a mode of regulation (Vaillancourt and Laville, 1998, p. 131) going beyond the tutelary regulation through which public authorities alone decide on the general interest and then the structures of solidarity economy apply their directives. This model can be found in the financing of socio-professional insertion and requalification structures that consider the “labour market” as the sacred space that the “defaulters of the social body” must at all costs reintegrate (that unemployment is a structural invariant of capitalism is thus passed over in silence by the elected officials in charge of this sector to be protected). But the pluralistic management of Proudhon also transcends all forms of semi-market regulation which aims at putting the structures of solidarity economy in competition with each other, to achieve missions of general interest, again defined only by the public authorities on behalf of the New public management. We find such an orientation in the implementation of territorial policies co-created for the development of the social and solidarity economy that the local actors and the Réseau des collectivités territoriales pour une économie solidaire (RTES), joining elected officials of the social and solidarity economy, aim at promoting. Moreover, it was in a similar way that Proudhon sought to co-build the People’s Bank. Indeed, recent research on the latter shows that the Bank was not only his work but that it was founded in connection with the delegates of the corporations of Luxembourg created by Louis Blanc (Chaïbi, 2010, p. 17-18), who would play a key role in its management and development, while Proudhon was engaged in political and journalistic activities.

At a time when specific components of solidarity economy are thus the object of recognition by public authorities throughout the world, we think it is necessary to deepen the thought on the relations towards the public actor

that allow the development of this economy while preserving its autonomy. Admittedly, the institutionalization of solidarity economy questions the purely anarchist approaches whose guards, in the words of Manfredonia (Ibid., 12), are “the use of direct action and the refusal to recognize public authorities or employers as interlocutors ‘to counter’ any eventual recovery or institutionalization of struggles”. But the employers must absolutely stay out of the way, and the question that is becoming urgent today is the following: could an experiment of anarchist economy completely independent from public action be able to stay viable and autonomous, or just possible on a large scale, at a time of globalized capitalism more draconian than ever, which for 50 years has engulfed and digested the most original initiatives everywhere? Certainly, new cooperative and interdependent practices appear everywhere, whether one thinks of the Zone d’autonomie temporaire and the Zones à défendre (ZAD) in France (Bey, 1997) or the development of the commons (Dardot, Laval, 2014). But how to spread, coordinate on a large scale and develop over a whole territory? Traditionally, as Bakunin already noted, the problem of the anarchist and libertarian organization is that it does not cope with distances and large dimensions. Which federal organizational link can be invented on a large scale if we are not radically rethinking the State form, definitively transforming its organization?

In front of the fears that solidarity economy could be exploited by traditional public policies, an alternative could be the development of initiatives unrelated to them. But then, in addition to a fight lost in advance against a capitalism that is spread absolutely everywhere in the territories, the risk is that one of these two hypotheses come true:

- these initiatives will experience a confinement within alternative companies that are weakening due to the self-exploitation of the people who invest in them. It is the case of those anarchist communities which are certainly fascinating, but also so demanding that many of their members end up leaving;
- these initiatives attempt to open up to the outside and the market, in a liberal or even libertarian way, and this leads them towards a market success by weakening

all the mutualist objectives noted in the previous section. In both cases, the question of the confrontation with the political power is evaded. But this, in our opinion, should not be impossible in a radically federalized democracy.

This path towards other relations between solidarity economy and public authorities finds a new echo in the inclusion of solidarity economy in the political constitutions of Latin American countries such as Ecuador and Bolivia (Vaillancourt, 2015, 2016). But for these policies not to become a corporatist regulation in favour of social and solidarity economy, it is important that their co-construction mobilizes also other territorial actors and the civil society (*Ibid*, 2016, pp. 114-115). This acknowledgement of a solidarity economy in a pluralist democracy distances us from two of its meanings that deny its political dimension.

The first of these meanings criticizes and defies the existence of solidarity economy by identifying in it mainly the disengagement of the State or a disruption “of the foundations of the statute of the civil service” (Hély & Moulévrier, 2009, p. 41). In a Proudhonian perspective, it is rather the private capitalist economy and not the public service that is to be supplanted. For Proudhon, mutualism or the current solidarity economy would not be a third sector able to overcome the failings of the state or of capitalist companies; on the contrary, the latter make up for the inability of the working classes to organize themselves on bases of justice (Gardin, 2013, p. 202). The State will continue to provide budget lines oriented towards social security, unemployment, health care, retirement pays, culture, public spaces, etc. Better still, it can, will even strengthen them. Simply, the taxes collected to ensure all these redistributive actions would be on a fully associative, cooperative and mutualist economy, rather than on a capitalist one. A form of secondary, large-scale and universal solidarity would thus come to support or substitute the forms of primary solidarities registered locally in the associations and cooperatives of solidarity economy.

The second meaning of solidarity economy, which in reality aims at challenging it, is brought about by social entrepreneurs. It advocates the

establishment of laws in the social health sector that “replace the bottom-up historical process based on civil society initiatives, a top-down process enacting at the same time a takeover of public authorities, a planning of the supply and the competition among the players” (Itier, 2016, p.43). This way of claiming to reinvent a social post-welfare state model shows a socio-liberal orientation clearly. In addition to restoring to the State a power that Proudhon’s subsidiary and pluralistic logic wished to remove permanently, it was letting associations to get caught in the throes of that competition which Proudhon’s economic federalism sought to eradicate by allowing federations of non-profit economic structures to democratically distribute the production of goods and services. Faced with these two perspectives and in particular the second - i.e. the extension of the market - warmly encouraged at the level of European policies, libertarian socialism and solidarity economy may appear very weak. The effort to make them complementary and articulated allows however to take a different future into consideration.

Conclusion

The purpose of this chapter was to draw a political-economic perspective of solidarity economy. By tracing its intellectual and organizational foundations from a socio-economic point of view (part 1), we have tried to relate concrete empirical experiences that develop jointly into a complex and paradoxical relationship towards the “State” form, in order to draw their socio-politic dimension (part 2).

This allowed us to explore how the cultural heritage of criticism formulated in the 19th century by the libertarian socialism continues today to inspire contemporary solidarity economy without being necessarily aware of its anarchist origins. Even if pioneering associations have failed to become an economic and political model (from the last decades of the 19th century, libertarian socialism will lose its struggle against State socialism

within the Committee for a Workers' International), their institutional, cultural and organizational traces remain still perceivable today (Frère, 2009).

However, we persist in thinking that a libertarian approach to solidarity economy is likely to help it to get out of the ruts in which some conceptions seek to lock it up. Solidarity economy is neither a third sector (it aims to replace the sector of market capitalism and not to create a third one), nor social entrepreneurship (which wants to make “moral capitalism” and social initiative compatible), nor a charitable economy (aimed at relieving the excluded fighting against social violence and potential revolution), nor a supplementary economy that would aim at relieving the State of its social responsibilities.

If conservatives of all kinds are willing to promote, a bit within a libertarian logic, “the radical devolution of power and greater financial autonomy to councils, local residents and community groups” (Conservatives, 2010), they do not consider that the capacity and capability of these local residents, especially those living in the poorest communities, can play a direct role in controlling all economic resources and political responsibilities on a large scale. Because this even-tempered localism, if it really assumed its libertarian logic, should recognize that the empowerment of local residents must also lead logically to the destruction of the concentration of power and economic resources in the hands of shareholders.

The solidarity economy or the libertarian socialism that we seek to theorize is very clearly aimed at the State returning its political power to society and capitalism restoring its economic power to that same society. However, it is an idea that may seem strange and utopian to the defenders of the third sector and the various currents mentioned below (*social entrepreneurship, social business* etc.) who are all willing to consider transferring the social responsibility of the State defined “de Providence” in

some countries in Western Europe to a charitable civil society populated by voluntary associations, and / or to the free market.

In our conception, in the case of libertarian socialism or solidarity economy the ideal of a non-capitalist society cannot get back to the inaccessible horizon of a post-revolutionary society (as it was in many variations of Marxism-Leninism). It is practiced here and now, as Proudhon said. Of course, solidarity economy is marginal. But it is not utopian. It continues to be realized today through various forms of civic engagement (Amap, solidarity finance, etc.), by proposing mutualist principles that once harnessed the Proudhonian theory as well as the first experiences of cooperatives' and workers' associations (e.g. those of the Canuts). These civic engagements are still of the educationist-accomplisher kind, since they allow both the economic emancipation and the (dis)learning of the rules of the market economy of productivism that we want to keep at bay. Let us repeat again: solidarity economy must be considered neither as the capitalism of the poor, nor as a social business, nor as a set of charitable organizations, nor as a system of social subcontracting of public services. The success of solidarity economy is due to the fact that it is not inferior to a tutelary state "... and that it rejects submission to the rules of the market. No capitalist principle can help to understand how it works: neither the invisible hand, nor free competition, nor the pursuit of financial interests, nor private property, nor even the idea of growth, be it social or cultural. But beyond the enthusiasm it can arouse, the question that has regarded its mutualist project for twenty years, at the same time political and economic, is still the same: can it succeed where its ideological precursor, the libertarian socialism, failed 150 years ago? If we consider the forces involved, nothing is less certain. Unless it is structured by a powerful federative organization (which some would still want to call State, Union, Federation or other) and is politically settled on its libertarian principles.

Report: *Social Inclusion and Human Well-Being*

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The general framework

The challenge was to reflect on how the present understanding of social justice can be reframed in light of today's overarching political, social and economic trends. Special emphasis was put on identifying the actors who would be better positioned to fulfil such a role, and on assessing whether economic democracy could be a meaningful strategy to tackle both the economic and political crises of present times. The two-day debate focused on the weakening of public state institutions in providing widespread and effective social assistance and services; additionally, the emergence of new technologies and jobs was taken into consideration, due to its effects on the labour market and the related difficulty in protecting professions that are hard to categorize. In brief, the discussion revolved around the need to conceive a new, general paradigm that would enhance working conditions, improve workers' protection and promote sound work relationships. All of the issues discussed, and the proposed solutions, highlight, on the one hand, the importance of rethinking our way of assigning value to work; on the other, more concretely, the necessity to ensure cooperation of all relevant

stakeholders, rather than only shareholders, in as many types of activities as possible, so that the benefits of business practices can be more evenly distributed.

Key issues and policy recommendations

1. *New jobs*

The first issue to be brought up concerned those new jobs that have emerged as a result of the impact of new technologies. These have undoubtedly opened up new frontiers with respect to how we interact among each other, exponentially increasing the speed of communication, while reducing its costs and distances; concomitantly, new ways of providing consumer services, and therefore new types of jobs, have appeared. ‘Riders’, for instance, who deliver almost any genre of good, from food to drugs, are now a feature sight in many contemporary cities. These new jobs are being added to a list of more traditional professions characterized by low social protection standards: from call centre’s employees, to domestic care-givers. How to adequately protect these occupations was thus the first relevant concern of the roundtable. The proposed solution to this problem is identified in platform cooperatives as an alternative, more democratic approach to understand business ownership. Platform cooperatives are, indeed, cooperatively owned types of businesses that typically operate through the support of a digital platform where the sale of goods and services occurs. Contrary to sharing economy businesses, such as Airbnb, they are owned by their workers and users, who are thus better positioned to reap the benefits of a more equitable circulation of value that such a business model generates. This is, truly, one instance of an ‘economic democratic’ understanding of labour relations, whereby the company itself represents the means through which objectives of social justice, fair redistribution among relevant stakeholders and workers’ protection can be achieved.

2. *Corporate governance*

Corporate behaviour and objectives were identified as the second relevant theme. The search for profit has taken new proportions in the last decades, yielding huge revenues for companies, without however generating significant redistributive effects for society as a whole. Not only the financial sector has grown exponentially, but new IT companies have come to dominate the market, with little economic benefits for the wider public. Additionally, the global scope of financial, productive and trading activities has made it especially complicated for public actors to extract taxes from leading multinational companies. The second issue therefore concerned the need to reconsider corporate goals and values. Benefit corporations were put forward as a sensible attempt to tackle this question. Benefit corporations are for-profit companies that choose to take responsibility for the social impact of their activities as part of their stated objectives. The idea is that the company is expected to operate so as to benefit not only its shareholders, but also its employees and the community where it is located, by taking into account issues such as environmental sustainability and its impact on society at large. While benefit corporations may conduct any type of business, they crucially include these social impact objectives in their bylaws and can be thus held legally accountable for any failure to deliver on them.

3. *The local dimension*

The perceived weakening of state institutions and the increased spatial competition among various territories – cities, rural areas, industrial regions, transportation hubs – have shed light on the need to take into account the specific necessities and circumstances of sub-national regions and localities. Cities, including the richest and most globalized among them, are places where stark inequalities in living conditions are arguably most manifest; at the same time, relentless urban development has often further exacerbated the conditions of

underprivileged non-urban regions. The need to target *ad hoc* policy actions towards specific territories was therefore identified as the third relevant issue. An example of *ad hoc* intervention targeting specific territories is that of a contributory income scheme as that envisaged by the French Institute of Research and Innovation for the Paris neighbourhood of Saint-Denis. A contributory income is a variant of a universal income, in that it provides funds only to a specific portion of the population, on the condition that beneficiaries perform a service to the community. The underlying rationale of the project lies in the fact that beneficiaries would provide their personal expertise and knowledge outside of a formal employer/employee relationship; in this way, different types activities that have, albeit not necessarily, limited market value – from street music, to amateur sporting activities – would instead be viewed as adding worth to the community as a whole. These type of projects not only aim at reviving communities, but also at recognizing worth to hitherto unvalued activities.

Report: *Commons and cooperation practices*

Lucchini Chiara (coordinator), Lagha Jasmin (rapporteur), Alinsunurin Jason, Bianchi Michele, Bilancioni Federica, Boccardo Serena, Boglino Ramona, Castillo Guevara Ursula, Cinelli Gianmario, Marucci Marco, Morelli Gabriele, Puligheddu Claudia

The general framework

The initial domains emerging from the discussion focussed on the “critical”/questionable role played by public authorities. These are seen as less and less capable to finance and frame public services consistent to the real needs of people and organizations, to regulate the market, balancing the effects of economic processes. On the other hand a few voices highlighted in a (rather) negative way those contexts in which the public authorities rely on the third sector to provide needed public services, as this activity is seen as an “exploitation” of civic society organizations. This led the general conversation divert on who holds public power, how and how much (and to who) should it be devolved, what the public sphere is and who (or which kinds of organizations/actors) is entitled to produce it: in this framework the group has positioned the issue of commons (initially framed both in their urban and regional/supranational dimension) and cooperative practices, reconceptualizing them as “political spaces”, areas in which communities and citizens can culturally determine themselves and are legitimated to redefine the notion of “common interest”. Finally, the role of cooperative

practices (co-management, co-design and co-production of services, etc.) seems to be key in this sense as a way to mix and merge competences, (not only) financial resources, social capitals, to test new models that are more capable to debase profit-oriented practices with social awareness, bridging between different policy-making levels. The discussion on these domains brought to a first general statement concerning cooperation (“cooperation is to be made sexy!”), and to its reframing not only as an emerging practice, but also: 1. as a method (to “operationally” define and solve problems); as an organizational model (to rethink service production and tackle local needs, but also to redefine the role of stakeholders and the geometries of their mutual relationships); 3. as a (rather) new investigation perspective in political economy terms.

Key issues and policy recommendations

1. *Cooperative ecosystems: stakeholders and mechanisms/tools that can make change possible*

Are we satisfied with the role some actors are playing in order to support/favor cooperative initiatives? How can we reframe the role of the public authorities? How can we frame the domain of the “public sphere? Which tools can we use to activate a more robust and structured system (regulations, financing, etc.) capable to “make the alternatives possible”? Making cooperation be seen as an opportunity (to tackle social issues of course, but also to establish new businesses, to generate new services, etc.). We need to invest on cross-cutting technical skills (empowering more actors/organizations), and make sure that partnerships are delivered.

2. *Practices/actions: the operational field: how things work and what can we learn*

Can we reframe the role of practices and give better value to practical knowledge? Can we use/analyse specific contexts and practices in order to better understand which are the needs/gaps of cooperative initiatives? This would require disseminating cooperation

at all levels (political, economic, etc.), translating practices into impact and giving a higher value to practical knowledge.

3. *Agenda setting/policies: influencing the debate in the long run (mainstreaming the cooperative issue)*

Change can happen if a major cultural shift is operated. This implies the need to work at different levels (locally, at city/regions level, nationally and internationally), bringing about change both in regulations/laws/strategic political assumptions and in the larger debate (general public, business world, etc.). How can we make the issue of cooperation enter the international political agendas (i.e. UN, EU, etc.)? How can we raise consciousness/awareness of big economic and political players? Priorities should be to change hierarchies (between stakeholders at all levels, may they be public or private, profit or non profit) into ecosystems, to set cooperation as an agenda (not as an end), and to establish a strong robust legal framework (as tool to deliver value).

Report: *New cities and social justice*

Ranzini Alice (coordinator), Atanosovska Martina (rapporteur), Amadeo Carolina, Cafora Silvia, Calafati Luca, Camilli Francesco, Cantaluppi Maria Giulia, Leccis Francesca, Manzocchi Luca, Mota Saraiva Tiago, Setti Giulia, Tubles John Martin

The general framework

Speaking about social justice in the city means to adopt the ‘spatial perspective’ on social, economic and political dynamics occurring in the city. The *spatial turn* in social science came to the consideration that the reflection on spatial consequences of policies and processes constitutes an interdisciplinary field of research on the city for a more just and inclusive development. However, spatial inequalities have been treated as a sectorial issue, as a prerogative of architecture and urban planning devoted to control or mitigate the spatial impacts of city management. Even if spatial justice is profoundly linked to the physical dimension of the city, we should not miss the fact that ‘we are all spatial’ (Soja, 2010), in the sense that both space organization affects social relationships as well as practices, perceptions, rules and behaviours shape the city. As Edward Soja mainly highlights, the spatial perspective on social justice considers the spatial effects of policies as an indicator of their social performances, as well as the spatiality of the city as the materialization of power relationships embedded in space¹⁹ that may affect the quality of social interactions, the use of space, the perception of

inclusiveness in places. The problem with capitalist urbanisation is that it systematically creates unjust spaces - even as an expected outcome of people actions - through displacement, segregation, unequal distribution of resources etc. All these phenomena have their origin in the political and economic organization of our society: it should not be ignored. Spatial justice refers to redistribution of resources in space but also to a matter of representation and recognition of the existence of the multiplicity of identities, practice and rationalities that compose our society (Sandercock, 2004). Governing the diversity in the city towards a just space, equal opportunities and right to participate is the ultimate challenge for the new city, conceiving it as a tool to mitigate the 'new regime of marginality' (Waquant 2008) built on the fragmentation of labour system. The problem of spatial inequalities requires us to refuse the approach to modelizations of social intervention in cities. In order to develop innovative practices more responsible and respectful towards the differences and the imbalances of power in the city, we need to adopt a more incremental and experimental approach, moving the conversation from models to case studies: the practice in itself has to touch back to the human local context based on case studies.

Key issues and policy recommendations

1. The commodification of the city and the urban life

A first issue to be highlighted is the commodification of the city and the urban life generated by the hegemony of the economic value over the use value. As Bernardo Secchi points out, the ideology of the market and the rhetoric of security have transformed the city into a powerful machine for suspending the rights of individuals and groups, especially those more fragile and poor. In this process, urban planning has been playing a central role (Secchi, 2013:74). The ideology of ownership and private interest, indeed, has been efficiently supported by urban policies that have made separations concretely visible at

different scales²⁰, legitimizing the reproduction of differences and inequalities. We're living in a period of increasing separation between different social groups, mutual denigration and loosening of social bonds (Petrillo, 2013). The progressive deterioration of the welfare state, both in terms of the idea of a social agreement between classes and as materializations of citizenship that distinguished the European city from other cities in the world (Tosi e Munarin, 2009), required us to reflect on how the spatial affects the social. Regulation and laws could play a strong role in producing and reproducing inequalities as well as in providing more equality, balancing out private investments with public interests. We should aim at the promotion of a de-commodification of urban development experimenting with different approaches to go beyond individual ownership and profit maximisation, that put use value at the centre of urban regeneration. To lead this goal the possible approaches stand both inside and outside the market economy. Using mainstream market models to experiment alternative practices of collaborative ownerships, promoting cooperative forms of management of urban resources more inclusive and accessible. At the same time, it's important to reinforce the culture of broad commonality and reciprocity (Polanyi, 1944). In order to oppose the increasingly diffuse private or elitist attitudes, promoting the possibility of reinforce relationships, support people capacities and aspirations as a new values for evaluating processes.

2. *The marginalisation of local knowledge and the disempowerment of local actors*

A second field of action concerns the marginalisation of local knowledge and the disempowerment of local actors made by the top-down approach to policy-making and urban design which does not consider the needs of local communities. As Nancy Fraser remembers us "some individuals and groups are denied the status of full partners in social interaction simply as a consequence of institutionalized patterns

of cultural value in whose construction they have not equally participated and which disparage their distinctive characteristics or the distinctive characteristics assigned to them” (Fraser, 1998:12). Recognition and visibility are basic requirements to rethinking both projects and processes of urban transformation as opportunities of enabling knowledge, competencies and practices of local communities and group, legitimizing the visions of those who are less able to raise their voice. We advocate for the support of community-led site-specific interventions, based on mutual learning between public institutions, private enterprises and community actors, with an emphasis on inclusion, integration of expertise and local knowledge. This solution implies to extend moral competence to people who share needs and visions of the world that are profoundly different from what the dominant culture recognize as valuable. It means, for example, to refuse the approaches that tend to stigmatize marginality and poverty validating top-down approaches to social and urban regeneration, while promoting a micro-relational approach to the government of contemporary urban complexity, recognizing local actors’ practices as sources of innovation for a more just city.

3. *The role of architecture and design*

On the contrary, architecture and urban planning are often seen as neutral, technical expertise that does not play a role in the processes of the commodification of the city. The third crucial challenge is, therefore, recognizing the role of architecture and design in fuelling the speculative development of the city, supporting processes of gentrification and not increasing the quality of life of all citizens. This can be addressed with the promotion of a right to spatial quality. The contemporary city often limits inhabitants, especially those who are living in marginal and peripheral neighbourhoods, in carrying out simple activities or in accessing comfortable and hospitable spaces

every day. It amplifies the sense of disaffection to places, as well as insecurity pushing inhabitants to refuge in their private spaces - when they are available - reducing the vitality of some areas. Considering spatial quality as a right to be implemented all across the city means to recognize the social and public role of architecture and design in ordinary and everyday spaces, shaping the city as an infrastructure that supports collective wellbeing, sociality and encounter. In this perspective, it seems urgent avoiding the practice of designing hostile public spaces that prevent so-called improper uses or people. Promoting new policies and regulations for designing public spaces that allow resilient, flexible configurations of public and collective spaces considering the long term sustainability. The attribute of resilience is crucial in this sense to shape spaces supporting the evolution of sociability and sensemaking processes in the city.

¹⁹ A consideration that reminds us the work of Henri Lefebvre as well as of David Harvey.

²⁰ In Italy, we can observe both the historical differentiation between northern and southern regions, as well as the high level of economic development of the main cities compared to the rural and peripheral areas, or the phenomenon of social polarization in the inner city that produces the concentration of social problems in specific neighbourhoods.

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