Missions and public purpose: A new social contract between business, labor and the state

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1. Introduction

Capitalism is not a deterministic system that is either good or bad—the exact form it takes is a result of concrete choices made to structure businesses, government organizations and transnational institutions—and how they relate to each other. In this sense, the market itself is an outcome not a deterministic process that forces decisions on others. The fact that capitalism is not working for so many – with real wages stagnant in many countries, private debt mounting due to the financialized structure of our businesses and financial system, and the planet warming irreversibly – means we must revisit those structures and decisions.

Labor's share of global income is almost at an all-time low. In the US, for instance, the share of gross value added in the nonfarm business sector paid out to workers as wage (or self-employment) income remained stable, between 63% and 65%, for more than a century – but then, around 2000, began to drop to hit a low of 56% in 2013, before recovering slightly to about 58% by 2020.[1] At the same time, and as a consequence, the capital share of global income has risen. Is this because capital has gotten smarter and more efficient while labor has gotten less so? No. Even in periods when productivity has risen, labor has not reaped the rewards, indeed the growth of real wages has lagged productivity growth[2]. And the increasing financializaton of the economy, has meant that profits are not being reinvested back into the economy, but to a large extent going to shareholders—increasing the divide between those that own capital and those that don't.

This is the result of decisions made to structure companies by maximizing shareholder value, siphoning off rewards for a small percentage of actors in the economy. Big pharma is a case in point. Even though value is created by many different actors and institutions, with the US government investing over $40 billion a year in health innovation, the prices of drugs do not reflect that public contribution, and from 2007 to 2016, the 19 pharmaceutical companies included in the S&P 500 Index spent US$297 billion repurchasing their own shares – through stock buybacks – equivalent to 61% of their combined R&D expenditures over this same period.[3] Now, during a global pandemic, these companies reap the rewards of a system set up to favor high drug pricing, the protection of corporate Intellectual Property (IP) rights and shareholder value over the production of stakeholder value. These problems transcend the pharma industry, with big tech companies now ascribing to the same models of shareholder capitalism.[4]

Key to the changes needed are linking the understanding of how value is created collectively, and how to steer that creation in ways that solve the biggest problems of our time from climate

change to stronger health systems. Achieving inclusive growth means that the conditions must be correct in the first place, without over-relying on the taxation system to redistribute problematic forms of wealth creation that create structured inequities. Creation and distribution must be seen as two sides of the same coin.

In calling for a new social contract, the International Trade Union Confederation reports that even though the world is three times richer than twenty years ago, 70% of people are denied universal social protection, 84% of people say the minimum wage is not enough to live on[5] and 81% of countries have allowed violations of the right to collectively bargain.[6]

The conversation emerging about the need to move from shareholder value to stakeholder value must thus be about how to create value with public purpose at the center, and how to distribute it socially. This requires state institutions driven by social missions, stakeholder value put at the center of how business and government work together, and finance redirected towards rendering the real economy more sustainable.

The most urgent challenge is battling a warming world, with increasingly extreme weather events, from fires and floods to droughts and hurricanes, and of climatic disasters from desertification to accelerating sea level rises. As climate change escalates and puts intense pressures on social, economic, and political systems, the impacts will get all the more devastating. The latest report from the Intergovernmental Panel on Climate Change (IPCC) declares 'code red for humanity'; that at current trajectories the breaching of the internationally agreed 'safe' threshold of 1.5°C warming above pre-industrial levels is imminent, threatening 'irreversible' climate breakdown. Despite the best efforts of delegates at COP26, current trajectories remain unchanged. The COP26 aim to 'keep 1.5 alive' is well and truly dead; the UN estimates that the agreements reached at COP26 set the world on track for a catastrophic 2.5°C of global warming. This crisis requires investments, but it's not just about money. How can we make sure that the green economy that follows is also a more just economy? This requires discussion about facilitating a 'Just Transition' while ensuring that the ownership structures that underpin the transition are just as well.[7]

Such questions are especially important during a global pandemic where governments are spending billions on recovery funds, such as the Next Generation EU in Europe, and Biden's Infrastructure Bill. As of July 2021, COVID-19 stimulus packages reached a staggering $17 trillion globally, with $5.8 trillion in the United States alone, dwarfing the $3 trillion global total for the 2008 financial crisis.[8] Such bailouts must contain within them the solutions with conditionalities attached that companies accessing such funds also invest in sustainable production methods, worker training, and stop using extraction tools like share buybacks.

This paper is about how the problems outlined above require a very different form of capitalism that structures finance, production, and public private partnerships in a very different way. It means making sure that we stop the way that large corporations continue to invest more in keeping its share prices high than in R&D for future innovation and problem resolution.[9] It means a different theory of what government is for, less about fixing markets and more about actively shaping and creating them to direct growth so that it is inclusive and sustainable. This cannot happen without capabilities inside our institutions.

If we are to successfully overcome the momentous challenges ahead, we will need to move beyond this narrow vision of shareholder capitalism towards a more capacious and collaborative form of stakeholder capitalism[10]. This requires in the first instance seeing government policy not in a market fixing lens but a market shaping one, recognizing that we cannot rely on political exhortations level the playing field and instead tilt the playing field in an inclusive and sustainable direction. This paper identifies the shortcomings of the current system and outlines a forward-looking vision for stakeholder capitalism guided by a mission-oriented approach[11], before exploring the implications and applications of this new approach for the three big challenges facing us today: post-pandemic recovery and resilience; the climate crisis; and digitization.

2. From market fixing to market shaping

Over the past half century, many have bought into the ideology that the state's role should be limited to reactively 'fixing' or 'correcting' market failures rather than proactively shaping or creating markets. Orthodox economic discourse disparaged industrial strategies aimed at 'picking winners' and restricted state interventions to at most 'levelling the playing field' to ensure only the most 'competitive' would win. The assumption of market failure theory is that markets work well and when they fail must be 'fixed' by policymakers and regulators so that externalities are properly accounted for. Carbon markets are one example. The aim is to 'fix' failures in carbon-intensive industries – so that their negative externalities are fully internalized and priced accordingly to truly reflect their social and ecological impacts. The opposite is when the private sector invests too little in something with public good characteristics, due to underlying positive externalities, so the government comes in to fill the necessary gap (e.g. R&D investments).

This market-fixing approach towards internalizing externalities is a welcome departure from the orthodox dogma of 'free' markets. It goes some way towards giving the economy the direction and coordination it needs to overcome its internal crisis dynamics. However, it stops short of the radical reinvention required to respond effectively to the massive 'external' challenges of climate change, global pandemics, and technological disruption. This is because it is always in filling the gap mode, tinkering on the edges, rather than transforming markets to deliver on key goals. For this we need to radically shape markets through a mission-oriented approach to economic policy – one that reorients the economy, and society, around the achievement of ambitious missions with clear public value and potential to solve pressing problems faced by all. If we want growth that is inclusive and sustainable this is not about levelling the playing field but tilting it – tilting it by choosing directions for policy to travel, towards addressing challenges with public purpose.

In this new conception, markets themselves should be viewed as outcomes of the interactions between both public and private actors (as well as actors from the third sector, and from civil society). In his seminal work, *The Great Transformation*, Karl Polanyi describes the role of the state in forcing the so-called free market into existence: 'the road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism'[12]. Polanyi's perspective debunks the notion of state actions as 'interventions'. It is rather one a notion in which markets are deeply embedded in social and political institutions[13], and where markets themselves are outcomes of social and political processes. Indeed, even Adam Smith's notion of the free market is amenable to this interpretation. His free market was not a naturally occurring state of nature, 'free' from government interference. For Smith, the free market meant a market 'free from rent', which requires much policymaking.[14]

And yet within economic theory, there is an absence of words to refer to the ways in which the actions of public institutions (visions, investments, and regulations) contribute to value creation, not only to its correction or distribution. Polanyi's analysis is not only about the way that markets form over the course of economic development. It can also be applied to understanding the most modern form of markets, and in particular those driven by innovation. Some of the most important general-purpose technologies, from mass production, to aerospace, and information and communications technology, trace their early investments to public-sector investments[15].

A key characteristic of market-creating investments is that they are not limited to upstream basic research (the classic public good). Indeed, public investments that led to technological revolutions (information technology, biotech, nanotech) and new general-purpose technologies (such as the Internet) were distributed along the entire innovation chain: basic research through the National Science Foundation (NSF), applied research through the Defense Advanced Research Projects Agency (DARPA) and the National Institutes of Health (NIH), and early-stage financing of companies through agencies such as Small Business Innovation Research (SBIR) that use government procurement to allow small companies to scale up through providing innovative goods and services for the public sector[16]. This means that these kinds of innovation instruments were spread across a decentralized network of different agencies across the entire innovation chain. While such agencies might not act together in a planned way, they were often driven by a vision to create new landscapes (in defense or life sciences) rather than to only fix problems in existing landscapes. Indeed, the Internet solved a problem – getting the satellites to communicate – and was funded by a problem-solving purpose-oriented agency inside government (i.e. DARPA). DARPA, the NIH and other such agencies have been successful precisely because they did not limit their role to fixing markets, often leading the way rather than de-risking the leaders. And it is not just innovation agencies: globally it has been public banks, that have often provided the high risk, early stage, capital intensive investment in different sectors. In Israel, the public venture capital fund Yozma was critical for what became 'start up nation', and in Germany, it has been the KfW public banks that has provided the most patient high-risk finance to green companies. In developing countries, it is often banks like BNDES in Brazil, or the African Development Bank that take on the most risk.[17]

Considering the state as not only a market-fixer, but also – and especially – a market-maker and shaper, provides a different justification for its contribution to economic growth, and hence to a just division of rewards between public and private actors. A mission-oriented approach can be conducive to creating and reinforcing symbiotic public–private partnerships towards addressing societal challenges. Given the state's role as risk-taker, and investor of first resort, new thinking is required for the ability of public institutions to share not only in the risks, but also in the rewards. This can encourage new thinking on how to achieve growth that is not only 'smart' (innovation-led) but also more inclusive. Mechanisms that find ways to socialize both risks and rewards can have an important effect on inequality as they create a 'pre-distribution' approach.

By allowing the state to retain a share of the rewards created through a process it contributes to, those rewards can be reinvested back into areas that directly create a more inclusive and sustainable economy. This can help states be more strategic and proactive in investments. Without this, government needs to focus most of its energy on *redistribution*, due to the negative consequences on inequality that arise when incomes are skewed, rewarding the few for the activities of the many. It also provides a new view on stakeholder value[18], placed however not just as the center of corporate governance reform, but at the center of where value is created in the first place: at the interface between different actors in the economy. When value is created collectively, it should be shared collectively. If one does not buy into the first part, with the faulty assumption that wealth creation happens only inside business and the state can, at best, fix market failures along the way, then the second part will continue to prove futile.

3. Public purpose and mission orientation

Any new eco-social contract must be founded upon a new partnership between capital, labor and the state – so that entrenched inequalities in wealth and power are massively ameliorated. Such a goal is at the heart of a mission-oriented approach to policymaking. This entails a new form of public-private (and common) partnership, in which the state partners with corporate, trade union and civic actors to socialize rewards and privatize risks – rebalancing the prevailing injustice of privatized rewards and socialized risks.

The state 's role should be to empower all stakeholders and actors in the economy – government agencies, corporations, small businesses, social enterprises, civic institutions, charities, citizen groups and trade unions, in a 'multi-actor perspective'[19] – to work together towards the realization of common goals, with the added value created through positive spillovers and multipliers fairly distributed between all stakeholders.

These common goals – or missions – should be determined by democratic deliberation inside and outside of formal government through, inter alia, elected representatives, directly-democratic digital platforms, participatory budgeting, community consultations, trade union councils, citizen assemblies and neighborhood forums. Through this deliberative process of mission-making, a collective vision and public purpose can be discovered to act as a shared horizon towards which all actors can direct their energies.

A mission-oriented approach begins by asking the question 'what is the problem we want to solve?' – framed as a goal to be achieved through investments in sectors and collaborations within individual projects. Such an approach has already begun to be incorporated within EU innovation policy, for instance, the Horizon program.[20] Five mission areas were selected by the European Commission on the back of my two mission reports: 1) adaptation to climate change; 2) beating cancer; 3) healthy oceans, seas, coastal and inland waters; 4) carbon-neutral and smart cities; and 5) soil health and sustainable food.[21][22] These missions areas need to then turn into real missions like reduction of 90% of the plastic out of the ocean in the next five years—so we can actually answer whether the goal was achieved. These mission areas map neatly onto several of the UN Sustainable Development Goals. In this way, the SDGs can be mobilized as the navigational stars guiding and illuminating mission maps.

Missions are not new — they have been used to inspire and direct action throughout history.[23] A generation of missions in the 1960s were technological — such as NASA's Apollo mission of putting a man on the Moon by the end of the decade. The moonshot required innovation in many sectors — as diverse as nutrition, textiles, software and aeronautics — and hundreds of projects. NASA would have failed had they not also transformed their own organisation to be more agile and flexible, with horizontal communication between project teams. They also changed their way of doing procurement towards a more challenge led one rather than the old cost-plus one. And given NASA's confidence they made sure to include 'no excess profits' clauses in the contract.[24]

Fundamental to delivering a successful modern mission is setting a clear direction, with targeted, measurable, and time-bound goals amenable to reflexive evaluation and continual improvement through experimental trial-and-error. The mission-led policy model can be summed up as ROAR: setting a Route and direction of change; building a decentralized network of willing Organizations to form mutualistic collaborations; evaluating their impacts through Assessment that can capture dynamic spillovers and feedback loops; and sharing out Risks and rewards fairly between public, private and labor partners through a renewed social contract[25].

The missions we need today – to tackle health crises, climate change, and digital disruptions –are different from NASA's missions in the 1960s: they are not just technological, but social and political. Today we face wicked problems, which are difficult to tackle precisely because they are deeply interconnected and complex; they cannot be easily broken down into smaller parts. Modern missions cannot follow the same top-down, technology-driven model methodology pursued by NASA. But the lessons above of a clear direction from the top, cross sectoral coordination, bottom-up experimentation and outcomes oriented budgeting and procurement are extremely important. We cannot battle the SDGs without putting public purpose at the centre of the tools in question.

The institutional machinery of the state needs to be re-engineered to gear legal, fiscal and regulatory tools towards stimulating social innovation across the public, private and third sectors. The state's role will be to cultivate supportive financial environments and initiate dynamic incentive structures for creative experimentation to flourish; all the while marshalling resources – human, material, financial, informational – to effectively coordinate multiple dispersed actions to deliver objectives.[26]

This requires not 'levelling the playing field'; but tilting it so market incentives encourage boundary-spanning innovation, and 'winning' entails solving 'wicked problems'[27] – that is, complex, multi-dimensional, intractable problems resistant to straightforward scientific resolution, requiring transdisciplinary, multi-sectoral and transcalar solutions directed by missions.

The creation and growth of new, alternative markets, such as for green energy and circular production, is simultaneously enabled by public investment in research and development, as well as patient capital pipelines for enterprise incubation. If done strategically, this can 'crowd in' private investments into new and nascent markets that create public value; while 'crowding out' old industries that produce little of public value or that contribute to problems such as inequality.

Key here is to use the full range of levers available to governments — from supply-side interventions, with the state acting as an investor of first resort (rather than lender of last resort) and as a funder and regulator with clear direction, to demand-side interventions, with the use of dynamic procurement policy to incentivize innovative solutions in domains ranging from public transport to housing. Governments play a critical role in catalyzing and coordinating both public and private investment around common goals, not least transitioning to a green economy. Industrial strategies must not be about subsidizing specific sectors but about catalyzing transformation across all sectors in order to meet social goals: climate action requires sectors as diverse as digital, nutrition, transport and construction to innovate and collaborate.

Such a mission-oriented, 'entrepreneurial' state is not engaged in a strategy of 'picking winners' per se but rather one of backing the willing – that is, supporting all those actors and agencies that are capable and committed to finding solutions to wicked problems[28]. This means moving from seeing government as lender of last resort to investor of first resort. The state is thus engaged in the public support, subsidy, and incubation of innovation ecosystems whose development is essential to meeting a mission – rather than of individual enterprises that appear competitive – for an economy geared towards mission-oriented innovation rather than profit maximization.

Key in all this is the state's relationship to risk. Rather than putting all its eggs in one basket by picking a particular company or technology or sector to support, while foregoing any public stake in their future success, an entrepreneurial state acts more like a venture capitalist to structure its investments as a portfolio, cross subsidizing any losses with gains and reinvesting surpluses in further rounds of innovation[29]. With greater risk and with higher stakes, comes failure. Failure is an intrinsic part of a more experimental and mission-oriented industrial strategy; the challenge is not to minimize failure per se but rather to minimize its costs and speed up the process of learning from failure, to 'fail faster'.[30]

4. Stakeholder capitalism: sharing both risks and rewards

Stakeholder capitalism is about recognizing and rewarding the contributions that different stakeholders – whether shareholders or not – make to the value creation process[31]. Growth is an inherently collective one: value is co-created between producers and consumers, workers and managers, inventors and administrators, regulators, and investors – not just heroic entrepreneurs, venture capitalists and corporate leaders – through the organizational and institutional configurations which enable all to work together.

By focusing on missions that involve as many different actors as possible, it is clear that value is created collectively. The next question is how to make sure the returns are socialized as much as the risks taken! This can happen through both financial and non-financial means. Financial might include equity stakes, while non-financial can include conditionality on how prices are set, as well as the direction of investment making production more sustainable, and workers paid well and treated with dignity.

Key to any transformation of the economy for addressing the challenges of the 21st century is a shift from a shareholder model of capitalism – in which returns accrue to only those with shares in profit-making firms – to a stakeholder model[32], in which returns are shared more or less equitably amongst all those with a stake in the economy; eventually moving towards democratized ownership and control – true stake-holding – of all economic assets.

Historically, the big innovations that have produced value for shareholders of successful companies like Apple and Amazon are more often than not the result of public investment. Most of the innovations driving the IT revolution and the key technologies underpinning the functionality of the smart phone – including GPS and the internet itself – flowed from strategic state investment as opposed to the private entrepreneurialism that free marketeers lead us to believe[33].

Indeed, the smartphone is the classic case of a composition of technologies first invented and developed by the state – the US defense research agency DARPA – and gifted to the world for free[34]. Yet Artificial Intelligence research is currently dominated by 10 competing companies – five Chinese, five American – each investing $10-12 billion a year each and replicating results. Such wasteful replication and unhelpful competition could be transformed by more coordinated state investment. If jobs are to be created in these emerging sectors, we need to revolutionize industrial strategy. A similarly high hurdle needs jumping for climate change, with vastly greater investments required in green technologies, and associated jobs, to decarbonize the economy.

One tool to engage in more coordinated state investment are conditionalities - funds given or loaned on the condition that the recipient complies with pre-set conditions meant to influence their behaviour, improve outcomes, and increase the chance that the aid will achieve its ultimate intended goal. Ambitious policies with conditionalities attached can help ensure the result is truly inclusive and sustainable. In this context, conditionalities – a typical industrial policy measure – tied to the allocation of public funds — such as on the pricing of final goods and services, knowledge governance, and reinvestment in innovation and local production — can be understood as active attempts to steer benefits directly to society [35].

First off, we need to reform intellectual property rights so that the value that's created by public investment in pharmaceutical and other technological inventions is recognized and rewarded. A business model defined by high research costs alongside low production costs, combined with an R&D investment model highly dependent on public funding, creates big incentives for big pharma to extract value by charging astronomically high prices for medicines justified through 'value pricing'.

While governments or in some cases charities (e.g. the Wellcome Trust) have funded the most important original research, private pharmaceutical firms invest their resources in patents for copy-cat commercial brands. Many of these companies' patent activities are about blocking competitors rather than rewarding investment in innovative research. The system is not set up to produce public health so much as private profit. We need a system that incentivizes stakeholder value – health for all[36] – over shareholder profit.

To socialize rewards in a non-monetary way we can make sure that the companies receiving public subsidies, guarantees and direct investments operate in a way that serves the public. For example, the extraction of value from the real economy that has been a result of the increasing use of share buybacks[37] can be reversed through conditionalities that assure that profits being earned from a process of collective wealth creation are reinvested back into the economy. The direction of that investment can also be a condition; for example, making sure that energy companies that receive subsidies transition more to renewables. For example, a recent loan to the German steel industry was conditional on the sector lowering its material composition, which it does through innovations around recycling, repurposing, and reusing material throughout the value chain. The direction of that investment can also be a condition; for example, making sure that energy companies that receive subsidies transition more to renewables, or as occurred in Germany when a recent loan to the steel sector was conditional on steel lowering its material content[38].

There are also good examples emerging from the ongoing COVID-19 crisis. When negotiating bailouts for industries suffering, such as airlines not flying, some states are seeking concrete societal benefits. To accelerate greening of industrial sectors, Austria has made its airline-industry bailouts conditional on the adoption of climate targets, while France has also introduced five-year targets to lower domestic carbon dioxide emissions. And both Denmark and France are denying state aid to any company domiciled in an EU-designated tax haven and barring large recipients from paying dividends or buying back their own shares until 2021.

Similarly, governing innovation for the public good has been highlighted during the COVID-19 pandemic. To maximize the impact on public health, the innovation ecosystem must be steered to use collective intelligence to accelerate advances. Science and medical innovation thrive and progresses when researchers exchange and share knowledge openly, enabling them to build upon one another's successes and failures in real time. The COVID-19 technology access pool (C-TAP), which is a voluntary pool for health technology-related knowledge, intellectual property and data proposed by Costa Rica and adopted and launched by the World Health Organization on 29 May 2020, has offered a pragmatic solution with game-changing significance.[39] However, it remains unused to this day.

5. New financial institutions

At the center of this new political economy are various institutional innovations that ensure value is more equitably owned and distributed as well as sustainably created. State investment banks can provide the much-needed patient capital – whether grants or low-interest loans – to incubate innovation ecosystems, while taking a non-controlling equity stake and distributing dividends for public value. Such institutions invest public finance and crowd-in private investment in new enterprise and innovation that aims to resolve global challenges like the climate crisis[40] – and, importantly, take an equity stake or share in future revenues on behalf of workers and citizens.

National investment banks (NIBs) have a history going back to reconstruction plans for Europe following the Second World War. While their traditional functions were in infrastructure investment and counter-cyclical lending, more recently NIBs have become key domestic and global actors driving economic growth and innovation, playing risk-taking venture capitalist and mission-oriented roles focused on tackling modern societal challenges, not least climate change. By placing state investment banks at the center of industrial strategies and innovation investment processes, countries like Germany and China, as well as the European Union, are steering the path of innovation towards public goals.

The Scottish National Investment Bank (SNIB) provides the perfect example of a NIB with clear mission-oriented purpose at its heart.[41] Established in 2017 by the Scottish Government, with expert advice from myself and a team at the UCL Institute for Innovation and Public Purpose, the SNIB has been seeded with £2 billion in public money to provide patient finance over ten years to new firms and technologies across three mission areas, the primary one being climate action. Operational from 2020, the SNIB has made its first strategic investments in innovative Scottish firms specializing in tidal energy turbine manufacturing and heat storage batteries. In this way, NIBs play a central role in directing and shaping new zero-carbon markets towards a green transition.

National investment banks can also work alongside public wealth funds to provide public ownership and governance of key assets in land, enterprise and intellectual property. Public wealth funds can use the revenues generated by state investment banks and other state-capital hybrid institutions[42] to provide a citizen' dividend or universal basic income, services and infrastructure to effectively end poverty and dramatically reduce inequalities. Such innovations reimagine value distribution from *re*distribution *ex post* to *pre*-distribution *ex ante* – moving from an 'income sharing' state to a 'capital sharing' state[43].

Public wealth funds can also be leveraged to enable the state to take a direct stake in the assets of the economy and the revenues generated by capital.[44] The long-term argument for public wealth funds is that, by taking equity in risky start-up firms with good long-run potential, the state can help create businesses and an economy that would otherwise never come into being. Importantly, the state shares in the risks, but also takes a share in the rewards. The public surpluses generated by this stakeholder approach to development can be reinvested into further rounds of innovation. This long-term capital sharing approach is particularly important in meeting three objectives where the private sector is unwilling or unable to take the risks: to create new businesses in regions in decline or in a permanently depressed condition; to promote new businesses at the forefront of technology; and to accelerate the response to climate change.[45] As we have demonstrated in recent research, public banks and public wealth funds can take a number of different forms.[46][47]

At the national level, a public wealth fund in charge of mature assets would make equity capital injections to larger corporations, when necessary, but could also act as a holding company for assets that governments already own, such as state-owned companies and real estate assets. National wealth funds should not be confused with so-called sovereign wealth funds, which manage reserve liquidity, typically investing in securities traded on major international mature markets.

In addition to national funds, there are many possible variants of more specific, mission-driven wealth funds. Public venture capital funds would aim to promote economic growth and jobs, actively seeking out their own investment opportunities and be able to invest in projects that could pay off well, but which might have a negative expected market value – the kinds of projects that give the greatest additionality. A public venture fund has a mandate to maximize social or public value. This means that it can invest in projects that have significant 'market-creating potential' but are not yet feasible for private venture capital.

A public climate fund could focus on investments with strong evidence of potentially large carbon-reducing effects. These would avoid investments that are likely to result in substitution effects; that is, apparent reductions in carbon emissions that are offset by market substitution. Such a fund would cooperate with other public agencies to offer blended finance; that is, adding research grants to the equity investment if the project is far from being ready for private venture capital.

Finally, public wealth funds could be established for regional and urban scales, respectively. Regional wealth funds could focus and invest resources in economically disadvantaged communities, where a few small, hard-to-restart businesses are vital to community life and where support may be warranted for both economic and social reasons. Urban wealth funds have been effective funding vehicles in various cities globally to pay for infrastructure investments, including transport, education, and health care, as well as housing, without the use of taxes. Urban wealth funds are also a means by which the public sector can ensure the rise in land values that comes from public investment in infrastructure, in particular transport, is efficiently captured for the public purse[48].

Crucially, the surpluses generated by public asset ownership could then be distributed to all workers and citizens as a Citizens' Dividend – to recognize the contribution they each play in the value creation process[49]. A Citizens' Dividend is more clearly linked to the fact that citizens create wealth together, and therefore deserve a dividend share rather than a welfare benefit handed back to them by the value creators out of redistributive benevolence.

A Citizens' Dividend is not unlike a Universal Basic Income (UBI) – a regular unconditional payment to support basic livelihoods for all. However, UBI leaves the capitalist system unreformed to continue concentrating wealth and power in the hands of a few, polarizing labor markets, reproducing inequalities and poverty and constraining coordinated multi-scalar action beyond decentralized market mechanisms from tackling the global ecological crisis[50]. Whereas UBI is divorced from value creation – a form of redistribution, *ex post*, after the fact of production, reforming the welfare system – a Citizens' Dividend is linked directly to the value creation process, *ex ante*; it is funded through public asset ownership in the real economy, by value that is produced through the labor of workers and the demand of consumers. This would form the real material basis for a new social contract between the state, capital, and labor – the foundation for a Green New Deal.[51] Norway provides a great example of how public wealth funds can support the green transition in this way.[52]

Yet national development banks and public wealth funds must only be the beginning of a long-term strategy of democratizing capital. A truly stakeholder capitalism entails stakeholders owning and managing capital. We need to consider seriously historical efforts to democratize and socialize capital, such as Sweden's Meidner Plan, inspired by the Rehn-Meidner model developed by two economists in the Swedish Trade Union Confederation (Landsorganisationen). In the latter's 1971 congress, a proposal was tabled on the development of an employee fund that would require all companies above 50 employees to issue stocks each year amounting to 20% of annual profits. This stock and the profits entitled were to belong to the local unions as long as they did not surpass 20% of the company's total stock. Employees' stock could not be sold and would be included as an asset of the workers fund; the dividends reinvested in stock of the same company or used for employees training. What became known as the Meidner Plan came very close to being institutionalised in Sweden – largely due to the strength of the labor movement – were it not for the electoral defeat of the Swedish Social-Democratic Party in 1976.

More recently, in the UK, the Meidner Plan inspired the development of a very similar policy proposal for an Inclusive Ownership Fund, first mooted as a policy recommendation for growing the size of the cooperative economy but later gaining traction in the Labour Party.[53] "Under this proposal", stated the report, "all shareholder- or larger privately-owned businesses would transfer a small amount of profit each year in the form of equity into a worker or wider stakeholder-owned trust. Once there, these shares would not be available for further sale."

Beyond long-term goals of gaining ownerships stakes, we need concrete plans in the short-term to increase worker participation in corporate and public decision-making. A good example are the Citizens' Assemblies on climate change that have recently been launched in Spain.[54] We also need greater worker representation on the boards of big companies – with legislation enforcing this if need be. This should be matched by greater cooperation and coordination at the regional policy level. For instance, in Germany, the Council for the Design and Accompaniment of Structural Change (Transformation Council) is a collaborative body for developing measures tailored to the economic context of Rhineland-Palatinate. It includes the trade unions, the Rhineland-Palatinate State Association of Entrepreneurs' Associations (LVU), the working groups of the chambers of crafts and industry and commerce, and the regional directorate of the Federal Employment Agency.[55] The Transformation Council aims to stimulate cooperation between the state and labor on issues including energy, R&D, transport, and digital infrastructures to transform industrial sectors as part of the green transition.

The informal economy now makes up over 60% of the global workforce – over 93% of whom are in the global South.[56] Even within the formal economy, in global supply chains, 94% of the global workforce is a hidden workforce where the obscurity of business contracts facilitates exploitation and oppression and undermines labor organization.[57] Fueled by rapid informal urbanization in the global South and precaritization and gigification in the global North, the hidden and informal economies will only grow in the decades ahead. This poses challenging questions for labor organizing – especially for how trade unions can represent informal workers and develop new institutions for bringing informal workers into economic decision-making processes – particularly in the global South. Bridging the very different labor markets found in the global North and South is a major task for building institutions.

There is also the question of social reproduction and care to think about. Labor movements have historically focused on the realm of production, on factory floor organizing and industrial relations, yet this is sustained by the largely unpaid labor in the realm of social reproduction, the 'hidden abode of production'[58]. Household, domestic, community, childcare, and adult social care labor of all kinds – still predominantly performed by women – remains a domain that is undervalued, under-organized and under-represented by dominant institutions. The recent strengthening of union-cooperative alliances and new forms of partnership between trade unions and co-ops – particularly with respect to care co-ops – represents a promising area of institutional innovation in this regard.[59]

Taken together, these institutional innovations form the foundation for a new social contract – the only way to rebuild the trust and cooperation we need to drive a socially just transition. They are just a few examples of the new or recently rediscovered ideas for radically reforming capitalism – a mode of production that at the very least needs urgently re-orienting around missions with renewed participation from labor.

6 Global cooperation during the pandemic

The COVID-19 pandemic has proven a stark wake-up call to the limitations of shareholder capitalism and its associated global governance model based on the Washington Consensus. Some have estimated the cumulative financial costs of the pandemic related to lost output alone – not accounting for the value of lives lost – over the decade following 2020 to be around 54.7 percent of total global GDP in 2019, or $47.7 trillion.[60] In the context of extreme economic shocks wrought by pandemics and climate change, the governance of shareholder capitalism fails to create value even for shareholders.

Until governments around the world – especially those in the most advanced economies – properly coordinate their responses to COVID-19 and commit to global vaccine equity, we will remain in this vicious cycle of failure for some time to come. Despite various pledges to boost vaccine supply to the developing world, such words have yet to translate into action. While high-income countries have secured an average of 1.33 vaccine doses per person, that figure for low-income countries is a shocking 0.04 doses per person.[61] This is largely due to the power of large pharmaceutical corporations and their influence over governmental decisions to maintain shareholder value over stakeholder value.

An unprecedented amount of public funding has been poured into vaccine research, development, and manufacturing. The leading six vaccine candidates have received an estimated $12bn (£8.7bn) of taxpayer and public money, including $1.7bn for the Oxford/AstraZeneca jab, $2.48bn for Moderna/Lonza and $2.5bn for the Pfizer/BioNTech candidate.[62] Governments have used “advanced market commitments” to guarantee that private companies that successfully produce a COVID-19 vaccine are amply rewarded with huge orders. If we cannot temper the profit motives of big pharma during a global pandemic, in the interests of keeping economies running as well as keeping people alive, what hope is there for a future of intensifying shocks and crises? The UN Sustainable Development Goals, first formulated in 2015, were always going to be a difficult challenge; in the wake of COVID-19 pushing state and market capacities beyond breaking point, that challenge is now impossible under current governing arrangements.[63] The time is ripe for a new global consensus.

The contours of a new global consensus have been captured in the Cornwall Consensus outlined by the G7 Panel on Economic Resilience, named after the location of the G7 meeting in 2021. The Cornwall Consensus aims to replace the values of shareholder capitalism that underpin the Washington Consensus with values in accordance with stakeholder capitalism, including greater cooperation between nation-states and greater participation and inclusion of labor and citizens in economic governance. The report sets the vision for renewed global governance to build resilience into the system as part of recovery plans to build back better following the pandemic.[64] The report makes recommendations to G7 leaders across seven key areas – global health; climate change;

digital governance; global trading standards; investment-focused post-pandemic recovery; labor standards and participation; and supply chains and critical market fragilities. It is essential the 2022 G7, led by Germany, build on this.

In terms of global health, the Panel calls on the G7 to deliver vaccine equity globally, invest substantially in pandemic preparedness and mission-oriented health financing, and center health as a permanent topic of the G7 cycles. This resonates deeply with the proposals of the WHO Council on the Economics of Health for All (which I personally chair) for treating universal health and wellbeing not as an input or a cost on the economy but as a central goal.[65] The Council argues for introducing a "common good approach" in reshaping the economy and its governance for health[66, 67], across the areas of innovation[68], finance [69], value[70], and capacity. To address the inequity in the access to critical health technologies now and in the future, governments—especially the G7—must foster local and regional innovation networks and capacity-building efforts that target low- and middle-income countries; direct long-term strategic financing towards building "end-to-end" health innovation systems; ensure critical health technologies are considered as global commons rather than the exclusive right of private IP monopolies; and work closely together with vital industry and non-profit actors and investors to transform public-private partnership, so that it delivers stakeholder value beyond shareholder value.

In the case of both climate and health, the cost of inaction is greater than the cost of action. For climate, Nicholas Stern has recommended an increase in state investment among G7 countries to 2% of GDP per annum, to raise $1 trillion per year from now until 2030.[71] This paper has highlighted the need for to think both about greater investments and the way those investments are channeled. Investment needs to be channeled through new contractual and institutional mechanisms that measure and incentivize the creation of long-term public value over short-term private profit.

7 Conclusion

In recent years the concept of stakeholder capitalism has taken off, no longer an academic concept to describe varieties of capitalism[72], but a proclamation of change from the business and finance communities. For instance, in Larry Fink's 2022 annual address to the CEOs of the companies whose assets his firm manages on behalf of investors, the founding director of BlackRock – the world's largest asset manager – took the opportunity to advocate for a more sustainable, socially-conscious, and forward-looking form of capitalism rooted in stakeholder rather than shareholder value. Anticipating the backlash, the letter would provoke from conservative politicians and neoliberal think tanks, Fink argued that stakeholder capitalism "is not a social or ideological agenda. It is not 'woke'. It is capitalism, driven by mutually beneficial relationships between you and the employees, customers, suppliers, and communities your company relies on to prosper. This is the power of capitalism."

Yet Larry Fink's vision for stakeholder capitalism – epitomising the conventional view – focuses far too narrowly on intra-organisational corporate governance and fails to see the wider landscape of extra-organisational, institutional relations between different domains and sectors of society. It leaves untouched the traditionally separate identities of stakeholder and shareholder. Stakeholders are to be considered and valued only insofar as their inclusion benefits the ultimate bottom line – the long-term profits of a different set of people, the shareholders, who remain at the top of the pecking order.

Here, the bottom line is still shareholder profit. Stakeholder value is advocated merely as a means to an end – to increase shareholder value in the long run. While a step in the right direction, it doesn't go far enough. It undersells the true meaning of stakeholder capitalism. The latter would seek to close the gap between stakeholders and shareholders rather than maintain the distinction. The aim would be to empower stakeholders as the shareholders – to give workers and citizens, trade unions and community groups, state institutions and NGOs an actual financial as well as political stake in the operation of capitalism.

Redescriptions of capitalism and moralistic exhortations to the captains of industry are therefore not enough to bring about a truly stakeholder form of capitalism. As discussed in this paper, we need to restructure capitalism so that there are in-built incentives from the outset to value the interests of all stakeholders and producers of value – not least labor and the free gifts of nature. And for this, we need to redesign the regulations and institutions that structure capitalism.

In the new social contract, the state and labor must work together to push for stakeholder capitalism from two different directions – as a multi-frontal strategy, a Polanyian double movement. This draws on the labor movement's strengths in industrial action, bargaining and lobbying through trade unions and political parties, and on the state's capacity to set the rules of the game. This latter movement is important if we are ever to get the Amazons and the BlackRocks of this world to begin playing the game of stakeholder capitalism rather than a thinly veiled new form of shareholder capitalism. We need to build back up state capabilities across nations and scales to shape and create markets and to establish strong regulations and conditionalities that guide market players towards the achievement of ambitious missions with public value.

Markets are not to be found in nature as pre-existing ecosystems, as orthodox economics leads us to believe; rather, they are socially and politically constructed through the actions and interventions of market actors, labor organizations and state agencies. As Polanyi imparts, markets are the outcomes of corporate governance, state regulation and labor organizing – and we have the power to collectively reshape them for the generation of stakeholder value.

Finance remains a big issue for a renewed stakeholder capitalism. The institutions that would stand at the foundation of such a system would themselves shore up the financial sustainability of the interventions required to bring it about. Public wealth funds taking a stake in the surpluses generated by capital would reinvest such wealth not into the hands of private shareholders but into the missions, innovation processes, and policy challenges that require public funding. The green transition can be financed through the very technologies and institutional innovations that will move us towards a zero-carbon economy, such as the profits of state- or community-owned solar energy farms.

The conventional choice between tax raises or public debt as a means to pay for large-scale state investment is a false dichotomy. In countries with monetary sovereignty, money can be generated by the state for public investments – and indeed is so at a massive scale in exceptional times of war, crisis or emergency. There is no reason why such fiscal and monetary engineering cannot be conducted during relatively normal times of peace. This is above all a question of political will. The challenges facing the labor movement in the years ahead cohere around this central issue of activating the political will to secure a new social contract.

The US Infrastructure Bill and the NextGenerationEU programmes provide promising opportunities to direct the recovery in ways that place ambitious public goals front and center. They each have the three grand societal challenges explored in this paper – post-pandemic health, climate breakdown and digital disruption – at their core. But without a robust framing in terms of market shaping and stakeholder value, the opportunity they currently have to change the global economic consensus will be lost. This is about walking the talk of stakeholder value – about truly building back better with a new social contract between business and government and labor.

Finally, participation is key. The level of polarization we have globally, and distrust in government and business, reflects the fact many have felt left behind. Building participatory structures, to make sure that democratic process is enforced is not only key for reasons of democracy but also for having more skin in the game. Missions themselves should be co-designed, with different voices at the table. While the Just Transition is key to make sure that labor is not left behind in the transition to a greener economy, the voice of labor must be at the table to even define what we mean by green. A mission-oriented perspective can thus help bring public purpose at the heart of policy making, a pre-distributive mechanism to share value created, and a broader set of 'voices' who have a seat at the table.

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