41st Trilateral Commission Europe Conference

London, 3-5 November 2017

The conference featured among others, Oliver Baete, Carl Bildt, Brian Gilvary, Sylvie Goulard, Michael Gove, Enrico Letta, Eliza Manningham-Buller, Zanny Minton Beddoes, George Osborne, Keir Starmer, Gideon Rachman, Wilbur Ross, Nicola Sturgeon, Helle Thorning-Schmidt, Jean-Claude Trichet, and Axel Weber.

Conference summary

John Springford and Simon Tilford, Centre for European Reform

The theme of the 2017 Trilateral Conference was the causes of the rise of populism across the West – and what to do about it. The victory of Donald Trump and the UK's vote for Brexit in 2016, the rise of authoritarian, nationalist governments in Poland and Hungary, and the ground gained by the radical right in elections in France, Austria and elsewhere had some common roots. One was increasing hostility to immigration, exemplified in the US by the success of Trump's slogan to 'build this wall', in the UK by the Leave campaign's successful attempt to put EU free movement rules at the centre of the debate, and by Hungary and Poland's refusal to take in asylum-seekers stuck in Italy and Greece. Another cause was poor economic performance and frustration at high levels of inequality after 2008. Still another was the internet and other forms of digital technology, which is both amplifying the voices of radicals and has the potential to bring about a big restructuring of the economy, which will create winners and losers.

This note on the conference starts by providing an overview of the arguments put forward by speakers and participants about Europe and globalisation; economic performance; information and misinformation; and technological change. More detailed notes on three break-out sessions, on cyber, energy and water follow. A discussion of the conference's final session, on ways to reform capitalism, concludes.

Populism and economic performance

The pace of economic growth in developed economies has slowed sharply over the last 20 years, as the rate of growth in productivity has declined. At the same time, inequality has grown, with higher income groups benefitting disproportionately from what economic growth there has been. In the US, ordinary families have to a large extent become detached from the proceeds of economic growth. And since the financial crisis, that problem has spread to other countries: median household incomes have been stagnant or have grown very slowly for a decade.

Many conference participants agreed that these trends were unsustainable, and ultimately threatened the legitimacy of the capitalist system. People needed to believe that the economy was not rigged to benefit those at the top of income scale and that their children had a chance of enjoying living standards at least comparable to their own. Some argued that the tax burden on ordinary households needed to be reduced and taxes on wealth and property increased. Others were sceptical, arguing that this would do little to tackle inequality while undermining entrepreneurship.

There was also disagreement about the reasons for the slowdown in productivity growth. For some, it was a function of the slowing pace of technological change and hence the weakening of investment. For many, the decline in investment was down to firms prioritising short-term shareholder returns over long-term value creation. Technology optimists argued that we were currently in a lull as firms worked out how to turn new technologies into products and services; they needed to be encouraged to do so by well-designed, technology-friendly regulation. Others argued that the problem was a public sector one; businesses remained good at generating productivity improvements.

Populism, Europe and globalisation

Migration is the most visible form of the globalisation of economic activity – and a major cause of the rise of the radical right in Europe and the US – but it was not central to the debate at the conference. The debate on Brexit focussed on two visions of Britain – one that was truer to its globalising nature and freed from the constraints of EU law, and another that was close to the EU in order to preserve economic ties that had been built up over four decades of membership. Participants focused on the institutional arrangements – trade pacts with non-EU countries, or a more integrated and dynamic system with the EU with courts, laws and policies to promote a level playing field – that the UK would need, and immigration only came up insofar as the EU would allow the UK privileged market access in goods, services and capital if it would not accept the free movement of people.

The choice facing the EU after Britain leaves was between a more tightly integrated core, centred on the eurozone, which might encourage euroscepticism in newer member-states; some minor reforms to the eurozone to make it moderately more robust and little integration in other areas; or a looser Union, with different countries opting in or out of policies.

The US's abandonment of the Trans-Pacific Partnership was considered by many to be ceding power over the rules of trade and investment to China; and its renegotiation of NAFTA was seen as a turn from multilateralism, to a new, tougher unilateralism. Others argued that the US was not retreating from globalisation, that it was an open economy for its size, and it was simply renegotiating trade arrangements that played in the part in the US's chronic trade deficit or needed to be updated as patterns of trade had changed. The Republicans plans for tax cuts and tax reform would boost investment and economic growth.

Populism and technological change

Technological progress has always been the foundation of economic growth, but in recent decades it has been at least partly to blame for widening inequality, as automation and the development of global value chains have eroded the bargaining power of low-skilled workers in developed economies. The development of the internet economy, robotics and artificial intelligence heralds another round of automation of work currently done by humans.

Conference participants agreed on the scale of the economic changes that were coming – few said that technological change would have a minor impact. But some argued that the risk was that workers' share of national income would be eroded further, and that inequality would widen, undermining the case for markets and promoting political instability. One speaker said that it could take a generation for jobs created by new technology to outweigh the jobs it displaced. Higher taxes on capital, more progressive taxes on income, more international co-operation on taxation and greater redistribution were needed. Others disagreed, arguing that technological progress was the only way to raise productivity and hence living standards, and the role of government was to support the development of new technology and support workers through better education and training.

Populism and truth

Lies, hypocrisy and flattery have always attended public life; alternative facts and fake news have been part of politics and journalism for centuries. But many now believe that we are living in a 'post-truth' age, with nationalists and populists using new forms of propaganda to win adherents to their cause, and threatening the liberal establishment with a tide of deceit. For example, Russia's campaign is centrally orchestrated, ongoing, and aims to sow doubt over key components of democracy, such as free elections and the independence of the media. Russia makes active use of social media, as well as other forms of mass communication.

There was general consensus that fake news was a problem, and had played a part in the election of Trump and in the Brexit referendum in the UK. Some thought that civil society could and would develop sufficient resilience via greater media literacy; the public had not been seduced by post-truth narratives; they cared passionately about facts. Others saw this threat as a hybrid attack by a hostile foreign government actor, and governments should actively defend societies against it. Some noted that Twitter had banned Russia Today and Sputnik from advertising, and called on other technology platforms to take comparable action. Some argued that news feeds such as Facebook's were making it easier for the generators of fake news to reach an audience.

But there was little agreement on the role of technology companies in the spread of fake news. Some argued that social media was leading to confirmation bias in that people were only accessing news that corroborated their pre-existing views, and that this was fuelling support for populist narratives. Others countered that digitization had massively increased the amount of reliable information available to people. It was now far easier to check the veracity of claims than it had in the past. Some preferred information that fed their prejudices, but that has always been the case. People had always chosen to buy a newspaper that fit their world view.

Breakout session 1: We have become complacent about the future of energy

Jane Burston, UK National Physical Laboratory, and David Rockefeller Fellow

Moderator:

- Michael Liebreich, Founder and former CEO of Bloomberg New Energy Finance, UK

Speakers:

- Brian Gilvary, Group Financial Officer, BP, UK
- Christoph Sutter, Head of New Energies division and Member of the Board, Axpo, Switzerland
- Jeremy Oppenheim, Founding Partner, SystemiQ, UK
- Poppy Allonby, Managing Director, Head of Strategic Product Management EMEA, Blackrock, UK

The panel agreed that the scale of the challenge to decarbonise the global economy was enormous, that it could be done, but that governments and citizens were not doing enough to make it happen. A huge amount of investment is required – around $90 trillion by 2030, which amounts to 30% of global investment between now and then.

One priority is to reduce the amount of energy used per person whilst ensuring energy access for the 1.6 billion people – a fifth of the world's population – who have no access to electricity. The amount of energy used just to light the breakout session was equal to that used by the average person on the planet in one day. Europeans are using 15 times more energy daily than the average, and Americans are using 30 times more.

Another priority is reducing fossil fuel use. There is at least as much hydrocarbon still in the ground as has already been extracted and used to date. Fossil fuels will continue to contribute a large part of the mix over the next two to three decades, but the vast majority of existing reserves must remain in the ground in order to meet climate change targets agreed in Paris.

We need to shift to a much greater use of electricity. Electricity accounts for 20% of the energy mix today and will account for 50% in the future, due to electrification of sectors such as transport and heat. This move to greater use of electricity must be coupled with an increase in the share of renewables. Increasing the share of renewable energy can create issues for the grid. Decarbonisation must be driven also by big improvements in efficiency across the economy. For example, only 5% of fertilizer – a big source of greenhouse gas emissions – goes towards growing food that provides necessary nutritional value to people.

But there are reasons to be cheerful. Forecasters have consistently overestimated how much solar and wind power will cost and underestimated the rate of installation. Offshore wind prices have fallen precipitously: for the first time this year there was no subsidy for offshore wind in a capacity auction.

In the energy sector there is a clear pathway to decarbonising energy systems whilst providing sufficient energy for those without access, and significant progress has already been made. A shift from coal to gas has supported emissions reduction over the last decide in the US. Energy efficiency has risen by 1-1.5% a year since 2007. US investment in sustainable assets has more than doubled from $3.7 trillion in 2012 to $8.7 trillion in 2016. Demographics are changing investment practices: 40% of millennials – the next generation of investors – are interested in sustainable investment compared to 23% of the total population. And renewable investment performance is on the rise, after underperforming for a decade, thanks to technological improvements.

Innovation will take us yet further. It might be possible to electrify some industrial processes, driven by cheap renewable power generated overnight. Digitization supports the energy transition. We need the rate of energy efficiency improvements to double: this is challenging, but new technologies like artificial intelligence will help to make this possible.

But there is more that governments need to do: there is 'enough capital' available to make the transition, but capital must flow to the right assets. A priority is a meaningful price for carbon. Even in regions where there is an emission trading scheme, such as Europe, there is a reluctance to make the price meaningful (it is currently too low to drive the energy transition). Even oil and gas companies advocate a carbon price, which will deter the use of fossil fuels and stem the flow of investment into carbon-emitting activity. Without a carbon price, it is questionable whether carbon capture and storage will happen, for example. But a carbon price is a necessary but insufficient condition for changing the system: it will not drive the structural change required, for example, in the transport system.

And renewable energy investments are not without risk. There are two main challenges: having the projects to deploy the capital available; removing the political and regulatory risk of these infrastructure projects. There is a role for public private partnerships to encourage investment.

We have become less complacent about the future of energy, but the scale of the challenge means that there remains a lot of work to do.

Breakout session 2: The iceberg of cyber: Why pretend it's business as usual?

Claudia Olssen, CEO of Exponential, and David Rockefeller Fellow

Moderator:

- Baroness Manningham-Buller, former Head of MI5, London

Speakers:

- Sir Julian King, Member of the European Commission for the Security Union, Brussels
- Giampiero Massolo, former Head of the Italian Security Services; Chairman, Fincantieri, Rome
- Professor Sir David Omand GCB, former Director of UK Government Communications Headquarters (GCHQ)

Cyber security has become an issue of growing global importance as the number of cyber attacks has increased. Countries' real and perceived cyber capabilities may have an influence on the balance of power between states, levelling the playing field between countries more or less able to project conventional forms of power.

The challenges in the field are complex. One problem is the lack of a common definition for cyber conflicts, and internationally binding rules for different aspects of cyber security. This is partly due to rapid technological change, and partly due to the wide variety of cyber activities. These include spreading propaganda, fostering online radicalization, spreading ransomware and viruses, illegally accessing and spreading data and information, as well as destabilizing governments, institutions, and companies through cyber attacks, by engaging or targeting the individuals who work for them.

The panel agreed that cyber threat is real and serious. 'Cyber space' appears to be virtual reality, but there is no wall between individuals and the cyber world – real people get hurt and real money gets stolen in cyber attacks.

Politicians and citizens perceive cyber warfare and violent attacks to be different, but the line between them may be blurred, especially in instances of terrorism. Managing cyber attacks, online crime, as well as misinformation and propaganda campaigns requires an all-government approach.

Because defence ministries are used to dealing with conventional threats, they need to work more closely with other arms of government to find solutions to new challenges. They also need to collaborate with security services, police forces, politicians, internet companies, and citizens because radicalizing propaganda may come from both individuals and state actors.

Cyber defence often lags behind cyber attackers, and the state of capabilities varies across nations and organizations. Many governments must dramatically increase their capabilities in cyber security. The work needs to start on a national level, but significant international collaboration is needed. According to one participant, there was an appallingly low level of international co-ordination. We need well-briefed national politicians and enforceable international agreements in some areas. In others, nation-states need to agree on principles to regulate online activity, with tool boxes, guidelines, and knowledge-sharing.

Governments need to work with internet platforms and other companies, as the public and business as a whole mainly have the same interest in security. The intelligence community also needs extensive contact with the business world on these issues. These networks should be as international as possible. For their part, businesses should realize that cyber security is becoming a matter of corporate social responsibility.

As one of the solutions for enhanced security, many banks and governmental agencies are exploring blockchain/distributed ledger based solutions which by design are resistant to modification of the data. Research and pilots of the technology suggest that distributed ledgers can record transactions between two parties efficiently and in a verifiable, incorruptible, and permanent way. It is still too early to fully tell what the possibilities are in terms of enabling large-scale security solutions, but the technology and the testing currently undertaken looks promising.

States also need to work with citizens, educating the users of technology about the need for more prudence in using everyday tools like mobiles. Citizens are putting more of their lives on mobile platforms and sharing increasing amounts of personal data, without enough knowledge about who has access to it.

More exploration and collaboration is needed to respond to threats in an increasingly connected world.

Breakout session 3: The next war will be about water

Katinka Barysch, Director of Political Relations, Allianz, and former David Rockefeller Fellow

Moderator:

- Louise Fresco, President of Wageningen University and Research Centre

Speakers:

- Giulio Boccaletti, Chief Strategy Officer and Global Managing Director, Water, The Nature Conservancy, Arlington, VA

- Liam Condon, Member of the Management Board of Bayer AG and Head of the Crop Science division, Monheim am Rhein
- Antoine Frérot, Chairman and CEO, Veolia Group, Paris
- Rory Stewart OBE MP, Minister of State for International Development and Minister of State for Africa at the Foreign & Commonwealth Office

All panellists quickly agreed that the next war will NOT be about water. But water could become an aggravating factor in, and integral part of, both international tensions and national socio-economic conflicts. This has been the case, for example, in the refugee crisis in northern Syria. To avoid this, we must urgently adopt a more holistic approach to water management.

Historically, there have been very few wars about water. On the contrary, transboundary agreements on how to share rivers and lakes have often helped broader cooperation. In some cases, the international community provided significant funds for water infrastructure to make such agreements possible, as was the case for the Indus Water Treaty of 1960.

Global water demand is set to grow by 50% by 2050, because of population growth and changing lifestyles. People in rich countries consume 20 times more water than in poor countries, directly and indirectly, since they eat more meat, for example. There will not be global water shortages, but in many places climate change is likely to exacerbate local problems. While available water storage allows people in Colorado to go without rain for three years, Ethiopians would run out of water after two weeks.

From a technological and an investment point of view, most local water shortages can be solved. In cities such as Delhi or Rome, half the drinking water disappears through leaky pipes. The price of desalination has come down by 90% over the last ten years. New technologies for collecting, cleaning and re-distributing used water could eliminate all urban water shortages. Clever, grand-scale infrastructure planning could deliver water from areas where it is abundant to where it is scarce, while also reducing flood risk and preserving wildlife. Adequate water pricing is a prerequisite.

Water, however, is not an ordinary good, which is why technology and infrastructure alone are insufficient to prevent shortages and tensions. Water is often an emotional issue, and for many people, a matter of life and death. Every day 2,000 young children die because of water-borne diseases and bad sanitation. Water is essential for producing food and energy. Yet those who have access to water do not value the next liter highly enough to pay a price that also includes the costs of long-term supply security.

Governments often manage water in inefficient, politicized and non-innovative ways. And yet water privatization is hugely controversial: even in the UK, where privatization triggered £185 billion in additional investment in the sector, and where people are now 100 times less likely to shiver under a slow-running shower, 90% of people want the water sector to return to state control.

Infrastructure masterplans look good on paper – until they fall apart in the face of irate farmers, concerned land owners and other affected parties. And while transboundary water disputes, such as the one surrounding the Nile, can easily be solved in theory, political animosities, vested interests and a lack of trust regularly frustrate mutually beneficial steps.

Solving the trade-offs required for good water management, including storage and provisions for incidental flooding, seems extraordinarily complex. Some countries, such as the Netherlands, have managed to do so over many centuries, but many others struggle. Non-democratic countries, such as China, can find it easier to push through grand infrastructure projects. China is also one of the few countries with an international water strategy: fearing future food shortages, China is on course to build 70% of all new water infrastructure in developing countries in coming decades – to make sure it gets access to irrigated crops. While water is perhaps not the subject of wars, it must be part of any country's long-term strategic planning.

Final Plenary Session: Is a new model of capitalism needed?

Manuel Muñiz, Dean, IE School of International Relations

Moderator:

- Manuel Muñiz, IE School of International Relations

Speakers:

- Richard Dobbs, Senior Partner, McKinsey & Company, London
- Mark Machin, President, & Chief Executive Officer, CPP Investment Board, Toronto
- Hans Wijers, Deputy Chairman, Royal Dutch Shell; Chairman of the Supervisory Board, Heineken, Amsterdam

The session began with an assessment of global economic trends and, in particular, with an analysis of the impact of technology on labour markets and income distribution. All panellists agreed that technology and other trends are having a tremendous impact on the types of jobs being demanded by the market and on the way wealth is generated and distributed within our societies. Not only are numerous jobs being automated entirely, but many more are being transformed by emerging technologies. This is leading to growing pressure on salaries and to an increase in the precariousness in employment, particularly in middle-skilled, routine jobs.

The decoupling of productivity and hourly compensation was deemed to be a particularly worrying trend by most members of the panel: it represented a fundamental change in our development model and radically altered the relationship between capital and labour. That decoupling was considered by all speakers to be a major factor behind the erosion of the Western middle class over the last three decades. That erosion is, in turn, a fundamental driver of the process of political radicalisation, and the rise of populism. These trends are of particular import for business, as the policies being implemented by populist leaders around the world are increasing the risk companies have to navigate and eroding the liberal order on which private enterprise is built. Indeed, some of the central pillars of that order, such as free trade and open markets – or in some instances capitalism itself – are being questioned in the West. The central question raised by the panel was therefore deemed extremely relevant by all participants: How can the capitalist system prevent some of these dynamics from deepening and leading to a further fracturing of society?

Various ideas as to how to make economic growth more equitable and sustainable were put on the table. One topic of discussion was the possibility of redefining the time horizon of businesses and investments. Taking a long term view was deemed not only beneficial in terms of returns but also in terms of the social dynamics it produces, with corporates more focused on the longer-term impact of their actions in the communities where they operate. The question of the time horizon for earnings reporting was also raised. The panel agreed that the abundance of information would remain central to investors, but that these should provide firms with a greater margin of manoeuvre when it comes to delivering on returns, precisely to foster a long-term approach to growth.

Several participants felt that the concept of corporate social responsibility needed to be rethought and expanded. In its current definition, it remains a tangential feature of business and one which provides only modest benefits. If corporates are to truly change the way they operate there needs to be a much deeper change to the concept of business sustainability. This redefinition would require business to recognise that they have a wider set of stakeholders, moving beyond a shareholder-centric model to one where employees, clients and the social groups affected by corporate activity are more central to decision-making.

A particular part of business activity that the panel believed would be significantly transformed over the next few decades was corporate education. The private sector should do more to educate employees and other sections of society for the economy of the future, given the rate of technological change. This would have to be done despite a rise in employees moving jobs. Some panellists believed it necessary to establish a universal basic income (UBI) or enact other new redistributive mechanisms, given rising inequality in pre-tax income.

Finally, the panel delved into the question of new ownership models and into the emerging 'fourth sector' (B Corps and other groups that score businesses on their social and environmental standards). Private sector actors that do not only seek profit but also social benefit were deemed to be particularly important for the future. The panel agreed that this new sector would not replace the profit-driven one but that it would almost certainly grow, in large part due to the changing preferences of millennials. As this process unfolds a larger part of our economies will need to be dedicated to seeking social benefits, and to correcting some of the imbalances that have led to the social and political fractures witnessed in 2016 and 2017.