THE INVESTMENT INTEGRATION PROJECT

Addressing systemic social risk: A roadmap for financial system action

Lessons learned from the Covid-19 pandemic

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Disclosures

Support for this research was provided by the Moving the Market (MtM) Initiative, a collaboration between Humanity United, UBS Optimus Foundation, and The Freedom Fund.

Design and illustration for this document provided by April L. Smith.

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Executive summary

The Covid-19 pandemic has exposed that global social and financial systems are just one disruption away from disaster. It has exploited a series of pre-existing vulnerabilities in these interconnected systems that have been increasing in scope and severity for decades.

As of late October 2020, Covid-19 has killed more than one million people worldwide, sickened almost forty million more, created extreme volatility in global financial markets, and triggered the most devastating global economic depression in nearly one hundred years.[1] This, despite widespread stay-at-home orders and mandated business closures, and despite governments introducing or announcing fiscal measures totaling nearly $10 trillion as of June 2020 to support capital markets, businesses, and workers impacted by shutdowns.[2]

The timeline for, and success of, the social, financial, and economic recovery from the Covid-19 pandemic will depend on many things (e.g., the development of therapeutics and a vaccine and ongoing policy intervention), but healthcare officials and economists warn that the situation might get worse before it gets better. More people will get sick and die, global GDP will decline, some jobs might never return, and some businesses could close their doors for good—even if governments act aggressively to suppress the spread of the virus and provide additional fiscal stimulus.[3] It is unclear for how long these consequences will linger.

Champions for sustainable and system-level investment have been warning investors and other financial system actors that their ignoring of the interconnection between social and financial systems, and of long-term social risks implicit in this interconnection, could eventually enable a social crisis like the Covid-19 pandemic to disrupt the financial system and global economy.[4]

The situation is still evolving, and it could be years before the world knows the full extent of the devastation caused by the pandemic.

But one thing is increasingly clear: "getting back to normal" is not an option, at least not one that will ensure that social and financial systems are prepared not only for the next inevitable disruption, but for social (and environmental) disturbances that will occur more often, simultaneously, and with greater severity over time.

The pre-existing vulnerabilities of social and financial systems that enabled the Covid-19 pandemic to wreak havoc on societies and economies worldwide

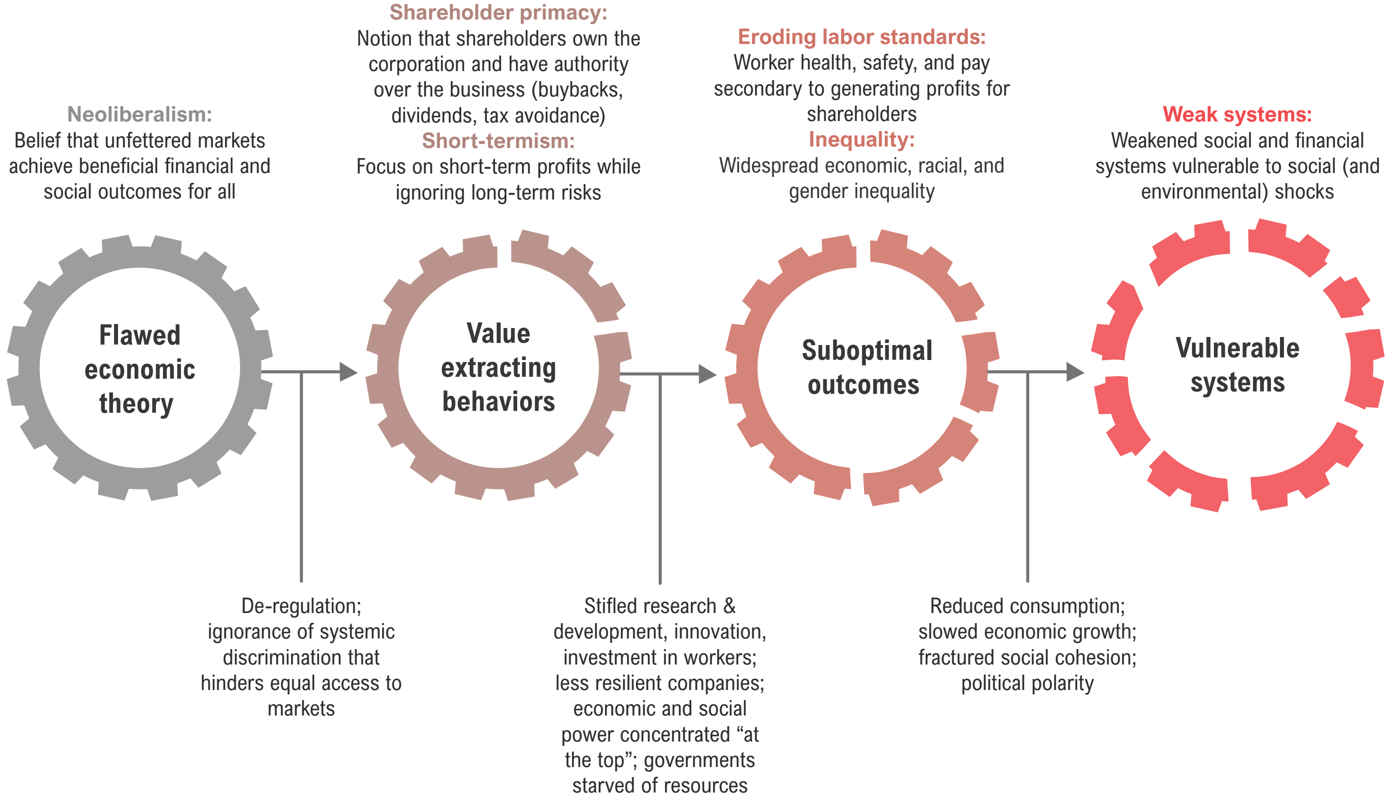
At the core of the vulnerabilities exposed and exploited by the Covid-19 pandemic is the financial system's commitment to outdated and otherwise flawed neoliberal economic theory. Along with the fundamental belief that unfettered markets can achieve the best economic and societal outcomes, neoliberalism holds that markets are self-regulating and that constraints (e.g., regulation) will limit innovation and economic growth, the private sector is efficient and generates better outcomes in all areas of society, and public policy should not seek to obstruct market outcomes.[5]

Neoliberalism is ill-suited to 21st century finance. It does not adequately contend with increasingly interconnected social and financial system issues like systemic poverty and discrimination that hinder equal access to markets, and it is not fulfilling its promise of economic growth that benefits all. Most notably, neoliberalism enables behaviors that extract value from markets and that concentrate financial, social, and political benefits and power among a select few.[6] Paramount among these behaviors are shareholder primacy (including things like stock buybacks, dividends, and tax avoidance schemes) and short-termism. These behaviors keep corporations and their investors focused near exclusively on profits and stock prices, and on enriching a select few shareholders—all at the expense of workers and society.[7]

Hoarding profits for select shareholders means that there is little money left for investments in research and development, innovation, growth, competitiveness, and workers. It also makes companies less resilient to shocks and more likely to need the public's help ("bailouts") when disaster strikes and starves governments of the revenue needed to fund vital public services that enable corporations, investors, and society to thrive (e.g., infrastructure, education, and public health systems).[8] Most notably, shareholder primacy and short-termism contribute to eroding labor standards, diminished workers' rights, and economic, racial, and gender inequality—all of which have serious economic consequences (e.g., slowed economic growth) and make the financial system more susceptible to social system issues (see figure 1).[9]

The consequences of neoliberalism and related value-extracting behaviors have been put on full display throughout the Covid-19 pandemic. "Essential" workers in industries and occupations required to continue working during "shutdowns," for example, have not always been able to obtain adequate equipment to protect themselves from the virus and sometimes lack access to the health insurance and paid leave needed for when they contract it.[10] Racial and ethnic minorities, women, and migrant laborers in many countries are more likely to work in these "essential" jobs and to get sick and die from the virus.[11] Further, related political polarization and fractured social cohesion have permeated individuals' acceptance (or lack thereof) of science-based public health recommendations during the pandemic in some countries.[12]

Figure 1. Pre-existing systemic vulnerabilities: Flawed theory, value-extracting behaviors, and suboptimal outcomes



Building social and financial systems that are resilient to future challenges

Building social and financial systems that are more resilient to inevitable future social crises and shocks will require all stakeholders in the financial system to acknowledge that the neoliberal status quo is not working and that it is making these systems vulnerable to social challenges. It will require reversing the many decades of damage enabled by neoliberalism and pursuing major structural change (see table 1).

Change must start with policymakers and industry regulators (a) rejecting the notion that markets left to their own devices will work for all and (b) shaping value-creating market behaviors. Practically speaking, this means prohibiting corporate and investor behaviors that compromise the integrity of systems and requiring corporations and their investors to consider the well-being of all stakeholders and to contribute to the building and maintaining of the social structures that sustain them (e.g., infrastructure, education, and public health).

Among other things, policymakers and regulators must limit or otherwise regulate stock buybacks, dividends, and tax avoidance schemes; protect workers and empower them to organize and participate in corporate decision-making; mandate corporate social risk disclosure, analysis, and management; and, when necessary, clarify that social risk management does not conflict with investors' fiduciary duty. Encouraging corporations and investors to do these things will not work in and of itself; meaningful reform will require laws and regulations. Provisions in governments' Covid-19 relief packages related to stock buybacks provide some indication that policymakers acknowledge that such laws and regulations are necessary to create needed change and that the political will to enact them exists.

Table 1. Building resilient social and financial systems: Recommendations for policymakers, regulators, and investors

Policymakers and regulators: Shape a financial system that generates better outcomes for all stakeholders	
Ensure that corporations equally prioritize all stakeholders	
1. Limit or otherwise regulate excessive use of profits to enrich executives and shareholders at the expense of workers, customers, and innovation	• Re-orient corporations and their investors to focus on maximizing value for all stakeholders, not just shareholders • Focus on stock buybacks, dividends, and tax avoidance schemes • Consider conditioning government aid to encourage preferred behaviors as has been done as part of some Covid-19 relief packages
2. Protect workers and empower them to organize, self-advocate, and otherwise be active participants in corporate decision-making	• Protect rights to collective bargaining and unions • Encourage shifts in corporate governance that align the incentives of those who control corporations with the interests of workers • Prevent modern-day slavery; ensure minimum wages, safe and sanitary working conditions, and access to leave and healthcare; ensure secure contracts and schedules
3. Mandate standardized, decision-useful corporate social risk disclosures throughout supply-chains	• Enable policymakers, regulators, and other financial system stakeholders to assess and track companies' exposure to, contribution to, and management of social risks • Should include, for example, disclosures related to workforce composition, pay, and labor conditions
Enable investors to embrace long-termism and integrate social risk considerations	
1. Require investors to manage social risks	• Enable investors to treat social risks as material financial risks and value them accordingly • Should include analysis and management of corporations' treatment of their workers throughout their operations and supply chains
2. Clarify that social risk management does not conflict with fiduciary duty	• Specify that fiduciary duty requires investors evaluate material social (and environmental) considerations • Urge investors to encourage holdings to improve social performance and promote resiliency in the financial system
Investors: Balance short- and long-term considerations, immediate returns and value	
1. Utilize system-level investing to address financial and social system vulnerabilities	• Allocate investments to asset classes well suited for addressing different systemic issues • Extend conventional investment practices to contend with systemic risks • Adopt new techniques that are explicitly designed to help investors to influence social and financial systems
2. Focus on addressing value-extracting behaviors, eroding labor standards (and worker disenfranchisement), and inequality	• Set expectations with corporations that they pay their share of taxes • Examine existing executive compensation models and explore alternative approaches that balance rewarding executives with investing in workers • Formalize investment belief statements that workers' rights and labor relations are material to companies' success • Adopt responsible contractor policies
3. Emphasize system-level investing techniques that leverage collective action and public policy advocacy	• Advocate for policy and regulatory reforms—get political • Articulate positions on shareholder primacy and short-termism and proactively advocate for related market reforms • Unequivocally state that income inequality hinders growth, workers should have the right to associate, and earn a living wage, governments should minimize tax avoidance, and social risk disclosures should be mandatory for all companies • Utilize collective action to amplify messaging and influence

Investors must also reject neoliberalism and help to shape resilient systems. As the stakeholders responsible for providing capital to financial markets, investors can have an outsized influence on corporate behaviors and overall market activity—influence that they can and should wield to help to address systemic weaknesses like eroding labor standards and inequality. Doing so is material to their financial interest and can help them to create long-term value and promote systemic stability while still operating profitably and enjoying competitive returns.

Practically speaking, this means adopting investment practices that balance short-term profits with long-term value creation, known as "system-level investment". System-level investment helps investors from across asset classes to modify their existing, conventional investment practices and utilize new techniques to address big systemic problems alongside their ongoing management of portfolio risks and rewards and their pursuit of competitive returns. This most notably includes leveraging collective action and public policy advocacy to hold corporations, policymakers, and regulators accountable for their actions and pressure them to act, and to empower workers to be active participants in corporate decision-making and financial systems more broadly.

The Covid-19 pandemic has sparked an unprecedented social and economic disaster, but the vulnerabilities in the world's interconnected social and financial systems that enabled this devastation existed long before the pandemic and will persist long after it is gone unless the financial system makes major changes.

The global financial system faces a reckoning: maintain the status quo that helped to enable this "pandemic depression" (i.e., "get back to normal") or embrace structural reforms that make social and financial systems more sustainable and resilient.

Even if global economies and markets recover quickly from the Covid-19 pandemic, the next systemic crisis, climate change—which intersects environmental, social, and financial systems and will equally impact them all—is already starting to unfold.

Financial system stakeholders cannot turn back time and prevent the social, financial, and economic fallout from the Covid-19 pandemic. However, they can take this experience seriously as a dress rehearsal for impending interconnected social, environmental, and financial system challenges like climate change, and can get to work implementing the recommendations detailed in this roadmap. This is the financial system's opportunity to reimagine what managing companies, running governments, and being an investor in the 21st century looks like.

The *Addressing systemic social risk* project and the remainder of this roadmap

Through the *Addressing systemic social risk* project, The Investment Integration Project (TIIP) and the Moving the Market (MtM) initiative set out to help financial system stakeholders better understand why and how the social, financial, and economic impacts of a single event like the Covid-19 pandemic have been so devastating. TIIP sought to help them recognize the interconnection between social and financial systems, to identify and examine why and how financial systems are vulnerable to social disruptions, and to recommend how to build a financial system that can better withstand future social challenges. That is, TIIP and MtM set out to help the financial system "move the market" from vulnerable to resilient, from value-extracting to value-creating, and toward long-term sustainability.

In doing so, TIIP interviewed experts on the intersection between social and financial systems (including representatives from asset owners, asset managers, industry organizations, and academia); consulted with substantive and practitioner experts and stakeholders; and identified and reviewed up-to-date literature on systemic social and financial risks and the integration of related considerations into public policy, regulations, and investor decision-making.

This roadmap represents the culmination of this research and of the *Addressing systemic social risk* project. Although not specifically or only about the Covid-19 pandemic, it uses the pandemic as a real-time illustration of the interconnection between social and financial systems, to help frame the weaknesses of each, and to outline related needed reforms. Its findings and recommendations are broadly and generally applicable to a global audience, but it primarily includes information and examples related to the United States economy—the hub for the global financial system.

Part A expands on the vulnerabilities of social and financial systems described in this executive summary—vulnerabilities that are enabled by neoliberalism and perpetuated by policymakers, regulators, and investors alike, and that existed long before Covid-19 and will persist long after it is gone unless the financial system makes big changes.

Part B presents our recommendations for how the financial system can address these vulnerabilities and ensure that future social events are not as disruptive as the Covid-19 pandemic has been. Doing so starts with encouraging policymakers and regulators to proactively shape resilient and sustainable markets (versus fixing them when they are already broken) but notes that big change will also require actions on the part of investors with support from investor organizations.

Introduction:
The fallout from the Covid-19 pandemic

As of late October 2020, Covid-19 has killed more than one million people worldwide, sickened nearly forty million more, created extreme volatility in global financial markets, and triggered the most devastating global economic depression in nearly one hundred years (described by some as a "pandemic depression").[13]

To slow the spread of the virus, governments around the world issued widespread stay-at-home orders and mandated business closures; while these "shutdowns" saved lives, they contributed to record-setting unemployment in some countries and substantial declines in real income worldwide. In the first quarter of 2020 alone, working hours fell by 5.4% worldwide—equivalent to 155 million full-time jobs.[14] After hovering around 4% for nearly two years, unemployment in the United States reached 14.7% in April 2020 (the highest rate in the history of the data) and remained above 8% as of August 2020.[15] This all despite governments introducing or announcing fiscal measures to support workers, businesses, and families totaling nearly $10 trillion as of June 2020 (see table 2 and figure 2).[16]

Table 2. Summaries of select Covid-19 economic relief packages

Country	Amount	Highlights
China	$680 billion	Pandemic containment spending (personal protective equipment, production of medical equipment, vaccine research & development), increased unemployment benefits, tax relief for citizens and businesses, direct public investment, small business support
Germany	$338 billion	$60 billion in grants for small business, expanded unemployment and healthcare benefits, increased family benefits (direct income support, expanded childcare for low-income families)
India	$260 billion	Increased unemployment benefits, payments for migrant workers, business loans
Spain	$46.2 billion	$21.3 billion in unemployment benefits, $5.1 billion for health services (Covid-19 research, regional hospital support, ministry of health contingency fund), $3.5 billion in direct income support (to certain low-income citizens, to be continued annually)
United Kingdom	$400 billion	$62.8 billion for public services & charities (National Health Service), $37.5 billion for businesses (property tax holidays, direct grants for small firms and firms in the most affected sectors, compensation for sick leave), $10.3 billion for social services, extended unemployment benefits
United States	$2.2 trillion	$293 billion in direct payments to families, $268 billion for expanded unemployment benefits, $349 billion for small business loans, $510 billion for corporate loans, $25 billion for food programs

Source: "Policy Tracker: Policy responses to Covid-19," International Monetary Fund, accessed October 20, 2020, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

The virus and the related policy responses also created extreme uncertainty and volatility in global financial markets. February and March 2020 marked the steepest stock market losses in over a decade and the start of the Great Recession; March 16, 2020 was the single worst day for stocks since the Black Monday market crash in 1987; Wall Street halted trading on the New York Stock Exchange twice in one week; the London Stock Exchange FTSE 100 collapsed by 33% between January and March of 2020; and late February through early March saw the fastest onset of a bear market in history.[17]

In countries around the world—in the Americas, Europe, Africa, Asia, and Australia—equity prices collapsed by as much 30% to 50% between the end of 2019 and June 2020 and at the fastest daily pace since 1987.[18] With the help of the trillions of dollars in fiscal measures mentioned above, many markets rebounded from these record-setting lows by the summer of 2020 (and some, like the S&P 500, set record highs), but not all companies and stocks have recovered. Just five stocks that total about 25% of the S&P 500 and have an outsized influence on its performance (i.e., Apple, Alphabet, Amazon, Microsoft, and Facebook), for example, are responsible for that index's rebound, while the others in the index continue to falter.[19]

The timeline for, and success of, the social, financial, and economic recovery from the Covid-19 pandemic will depend on many things, including the development of therapeutics and a vaccine and the scope and scale of ongoing government support and fiscal stimulus (too little too late can add months or even years to the prospects of a robust recovery). But healthcare professionals and economists warn that the situation might get worse before it gets better. More people will get sick and die, economic output will decline, some jobs might never return, and some businesses could close their doors for good. It is unclear for how long these consequences will linger.

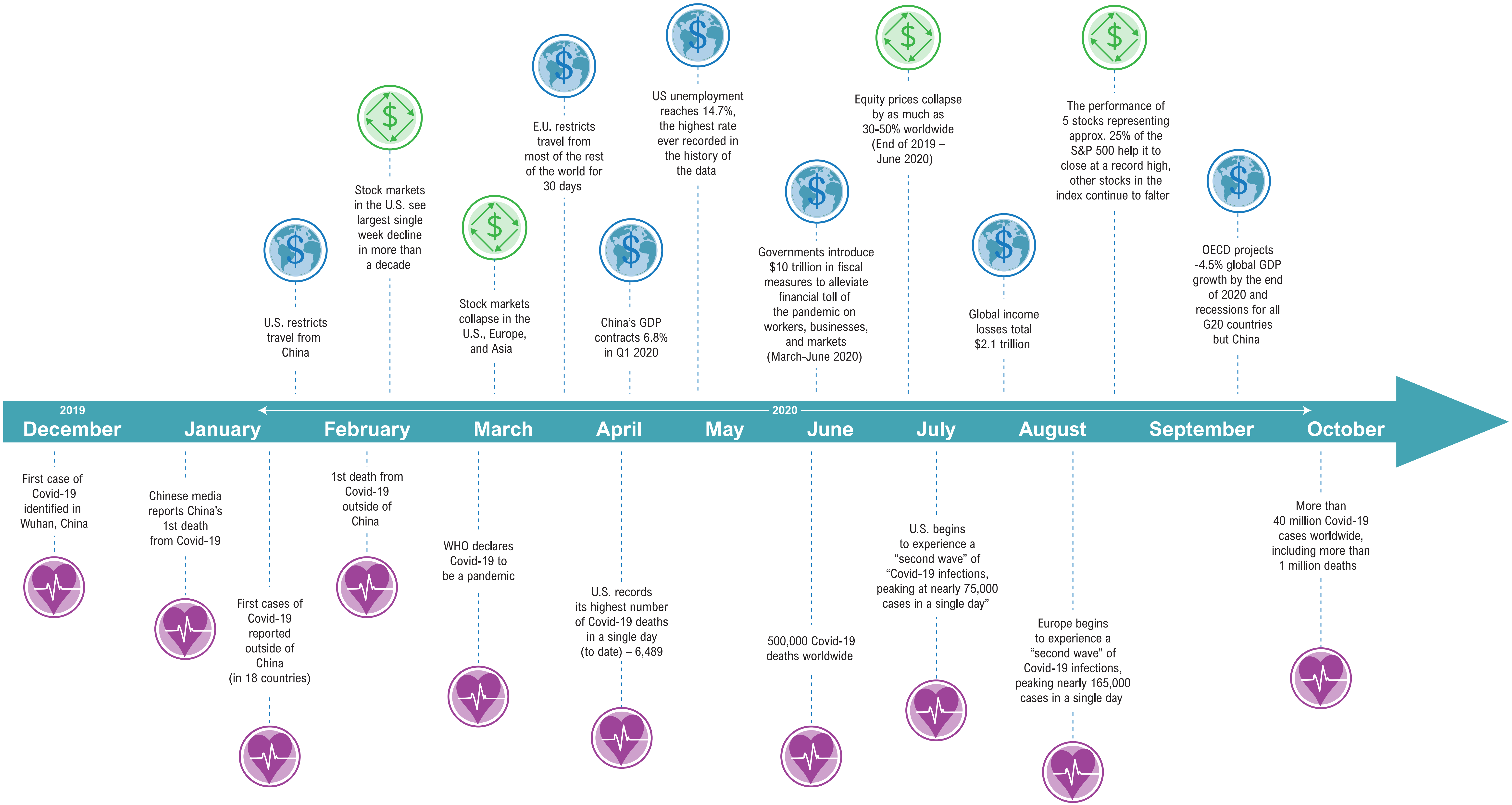
Despite modest improvements across various economic indicators throughout Summer 2020, medium- and longer-term social, financial, and economic projections are grim:

- The Covid-19 pandemic could be responsible for 195 million job losses worldwide in the second quarter of 2020 and for 90 million people falling below the $1.90 per day threshold of extreme deprivation.[20]
- Between 1.9 and 3.6 million people worldwide could die from Covid-19 by January 2021.[21]
- Remittance flows from migrant workers—an important source of external financing for low- and middle-income countries—could decline by as much as 20% (approximately $109 billion) to $445 billion by the end of 2020.[22]
- Global GDP could fall by as much as 4.5% by the end of 2020 and remain below 2019 levels in most countries at least through 2021 (meaning that major advanced economies could have lost the equivalent of 4 to 5 years of per capita real income growth by 2021).[23]
- All G20 countries except for China will have suffered recessions in 2020.[24]
- It will be more difficult for pension systems to meet future payment obligations given reduced contributions, lower investment returns, and higher government debt related to the pandemic and its fallout.[25]

Further, Covid-19 has laid bare persistent, structural, and growing economic, gender, and racial inequalities worldwide that destabilize societies and democracies and aggravate international tensions, creating the enabling conditions for additional sociopolitical consequences that exacerbate its impacts (e.g., uprisings, revolutions, and the rise of populist sentiment).[26]

The Covid-19 is an unprecedented global event, but as is described throughout the remainder of this roadmap, systemic vulnerabilities in social and financial systems have weakened them such that any number of other social (or environmental) disruptions could have led to a similar social, financial, and economic catastrophe and will do so in the future if the financial system does not enact big changes.

Figure 2. Timeline: The social, financial, and economic fallout from the Covid-19 pandemic



Sources: See source notes at the end of this roadmap.

A. Confronting systemic vulnerabilities

The pre-existing vulnerabilities of social and financial systems that enabled the Covid-19 pandemic to wreak havoc on societies and economies worldwide

The Covid-19 pandemic has exposed that global social and financial systems are just one disruption away from disaster. It has exploited a series of pre-existing vulnerabilities in these interconnected and interdependent systems that have been increasing in scope and severity for decades. They include weaknesses perpetuated by policymakers, regulators, and investors alike.

Central to these weaknesses is outdated and otherwise flawed neoliberal economic theory, which has dominated capital market activity for more than fifty years, and which has enabled value-extracting market behaviors such as shareholder primacy and short-termism that contribute to the erosion of labor standards and pervasive inequality.

The consequences of these weaknesses and value-extracting behaviors have been obvious throughout the Covid-19 pandemic, which saw corporations that use their profits to enrich shareholders asking their governments for bailouts; workers in "essential" industries and occupations going without the equipment needed to protect themselves from the virus or the leave necessary to seek adequate care when they got sick; racial and ethnic minorities and women bearing the brunt of the social and economic fallout; and political polarization permeating decisions to comply with or reject public health guidance.

Flawed theory: Neoliberalism

Most financial industry stakeholders—including policymakers and investors—remain committed to decades-old neoliberal economic theory that many prominent economists contend is not fulfilling its promise of economic growth that creates prosperity for all and is ill-suited to life in the 21st century. Introduced into the mainstream in the 1980s by economist Milton Friedman and embraced by then United States President Ronald Reagan and then United Kingdom Prime Minister Margaret Thatcher, neoliberalism encourages unrestrained free market capitalism and holds that:[27]

- Markets are self-regulating and that constraints, in the form of social insurance and regulation, will limit freedom, innovation, and economic growth;
- Public policy should not seek to obstruct market outcomes;
- The private sector is the most efficient way to generate better outcomes in all areas of society; and
- Markets, in distributive terms, justly reward the successful, and that attempts at redistribution by government are counterproductive.

Given its central focus on markets as self-regulating, neoliberalism holds that government intervention promotes waste and inefficiency. It relegates government to the role of "market fixer" that provides liquidity to the financial markets to avoid or buffer an economic collapse once a problem has occurred but contends that governments should not dictate how markets operate.[28]

Critics of neoliberalism—including prominent economists and academics such as Paul Krugman, Joseph Stiglitz, Robert Reich, Robert Kuttner, and Mariana Mazzucato—argue that it does not adequately contend with issues like systemic poverty and discrimination that hinder equal access to markets and their benefits (i.e., prosperity for all) and that inequality has gotten progressively worse since the financial system embraced the theory.[29] They assert that it instead enables market behaviors—namely, shareholder primacy and short-termism (detailed below)—that are defined by a near-exclusive focus on profits and stock prices above all other priorities and that prioritize certain financial and social stakeholders over others: behaviors that extract value from markets and hoard economic benefits among a select few market actors.

These behaviors have helped to create a financial system that benefits the few at the expense of the many; concentrates wealth, opportunity, and influence "at the top"; starves governments of money needed to make investments in social and physical infrastructure; and does not function well for most working people.[30] Today's wealthiest individuals, investors, and corporations have not hesitated to translate their wealth into social and political power, seeking to influence policymakers, justice systems, and academia. Corporations have become increasingly powerful while labor standards have eroded, unions have started to disappear, workers have become increasingly disenfranchised, and pervasive and structural economic, racial, and gender inequality have increased worldwide.

Value-extracting behaviors: Shareholder primacy and short-termism

Paramount among the value-extracting behaviors that are weakening financial systems is **shareholder primacy**—the notion that shareholders own the corporation and with ownership have authority over the business and its proceeds (profits). Shareholder primacy has dominated capital market activity in the United States for nearly fifty years and has been increasing in popularity worldwide (e.g., in Europe and Asia) for the past two decades.[31]

Enabled by the neoliberal belief that the market left to its own devices is efficient and will therefore generate optimal outcomes for society, shareholder primacy has led to a collection of unsustainable corporate and market dynamics that reward and enrich shareholders and executives at the expense of workers, the public, and the health of social and financial systems. This most notably includes stock buybacks, dividends, and tax avoidance.

Introduced into the mainstream in the United States in the 1980s and steadily increasing in popularity elsewhere in the decades since, stock buybacks and dividends are among the core ways that companies put shareholders first and their other stakeholders, including employees, last.[32] Through stock buybacks, or "open market repurchases," companies use their profits to purchase shares of their own stock, reducing the number of shares available for trade and increasing their price.[33] Companies similarly redistribute their profits through direct cash payments or in the form of additional stock, known as paying dividends.

Beyond making money for shareholders, buybacks and dividends enrich (a) executives who are commonly compensated with company stock and whose compensation is otherwise typically tied to company share price, and (b) the investment bankers and hedge fund managers ("activist shareholders") who influence the timing of the buying and selling of shares.[34] They also make companies look better to financial analysts and investors that assess companies, in part, based on their earnings per share; they enable companies to maintain revenue and reduce the number of shares available for purchase, thus inflating this metric.[35]

In total, American companies have returned approximately 90% of their profits to shareholders since 2010. This includes spending $1.09 trillion on buybacks in 2018 and $900 billion in 2019 ($806 billion and $730 billion of which was spent by companies in the S&P 500, respectively).[36] The American airline industry is particularly fond of buybacks, spending nearly all its profits on buying its own shares over the past decade (see box 1). Japanese companies are also increasingly re-purchasing their own stock, spending $52.5 billion on buybacks in 2018, while in Europe buybacks totaled approximately $150 billion in 2018.[37]

Box 1. Stockbuybacks in action: America's airline industry

American airlines have spent 96% of their cash reserves on stock buybacks over the past decade, even going into debt at times to make the purchases. The six largest airlines alone spent $47 billion on buybacks during that time, all while pilots from Delta Air Lines—which repurchased $2 billion of its own stock in 2019 and $11 billion since 2013—charged that their salaries had not kept pace with inflation and together with other industry employees argued for better pay.

In Spring 2020, as the negative impact of the Covid-19 pandemic on global air travel became increasingly clear, these same airlines asked the United States government for $50 billion in financial aid. The aid was approved and provided to airlines as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act but with the conditions that it (a) not be used for open market repurchases and (b) be used by some airlines to provide employees with paid sick leave or expanded family and medical leave for reasons related to Covid-19.

Sources: Andrew Bary. "Politicians Want Clampdown on Stock Buybacks. What That Means for Investors." *Barrons*, March 22, 2020; Gary Rivlin. "The stimulus halts a corporate trick that gouges workers. But it comes too late." *New York Times,* March 27, 2020; Leo Strine and Joey Zwillinger, "What Milton Friedman Missed About Social Inequality." *New York Times,* September 10, 2020; Leslie Josephs. "US airlines are set for a 10th year of profits. More than 120,000 employees want a raise." *CNBC,* December 26, 2019.

Avoiding paying their fair share of taxes—tax avoidance—is another way that companies retain their profits for redistribution to shareholders at the expense of their workers and the public good.[38] Globalization has helped to create a "race to the bottom" whereby countries use lower tax rates to compete to attract firms (the average corporate tax rate worldwide has fallen from 49% in 1985 to 23% today [from 50% in the 1950s to 17% in the United States]).[39] Within countries, regions (e.g., states) and cities similarly use tax rates and other tax incentives to attract corporations (e.g., the battle for Amazon's second headquarters, Tesla's Gigafactory in Nevada).[40] Multinational companies also shift their profits to subsidiaries incorporated in offshore tax havens with 0% or close to 0% tax rates (e.g., Bermuda, the Cayman Islands, and Ireland); in 2017, American companies shifted $3 trillion of their $4.2 trillion in profits to havens.[41]

The negative impacts of shareholder primacy on companies' workers, customers, and broader social and financial systems are considerable. Stock buybacks and dividends have an outsized influence on "predatory value extraction," the growing imbalance between value creation (the process of generating high-quality, low-cost goods and services and fueling productivity and growth) and value extraction (appropriating portions of the value that has been created).[42]

In practice, by funneling money to shareholders and away from workers and society, buybacks and dividends contribute to:

- Stifling research and development, innovation, growth, competitiveness, and investment in workers;[43]
- Making companies less resilient to shocks and more likely to need the public's help ("bailouts") when challenge strikes. Put another way, corporate risk-taking is socialized while rewards are privatized;[44] and

- **Driving inequality and the consolidation of political, social, and economic power with a few companies and people at the top.[45]**

Further, beyond exacerbating these consequences, corporate tax avoidance starves governments of the revenue needed to fund vital services, including:

- **Public services used by companies and their employees that are essential to the smooth functioning of financial and social systems (e.g., infrastructure, data gathering [census, weather, national security, education]);[46] and**
- **Critically today during a global pandemic, functional public health systems.**

Driven by a desire to generate market returns to meet their individual mandates, some investors have embraced shareholder primacy as a guiding principle.[47] Certain institutional investors, in particular, bear some of the responsibility for the scope, scale, and negative impacts of shareholder primacy.[48] A series of regulatory and legal changes enacted in the 1980s as part of the financial industry's embrace of shareholder primacy encouraged institutional investors to vote proxies and to collectively engage in shareholder activism and with corporate management toward the primary goal of increasing the value of their shares. Institutional investors own more than 63% of American public stocks and the largest of these investors—the "Big Three" (BlackRock, State Street, and Vanguard)—jointly own 20% of the shares of all S&P 500 companies. Many are diversified investors that essentially "own the market."[49] Such size and reach afford these investors substantial influence and power over companies, influence that they can wield to proactively address systemic challenges or to encourage corporate behaviors that exacerbate them.

Further, many investors—including large investors with long-term investment horizons and mandates (e.g., pension and sovereign wealth funds)—often focus on short-term goals (e.g., beating stock benchmarks, generating the greatest returns in the shortest time possible) and largely ignore long-term social consequences and risk considerations.[50]

Such **short-termism**—*short-term focus on price and efficiency*—can impede investors (and the corporations that they invest in) from appropriately considering long-term social risks and opportunities to create *long-term value.*[51] It causes investors to ignore massively destabilizing social challenges, to ignore the contributions they make to them, and to enable situations that worsen as they accumulate short-term profits.[52] Regulatory and legal requirements in some countries further propagate short-termism and prevent investors' efforts to integrate long-term value considerations into their analyses; this includes, for example, requiring pension funds to pursue unrealistic annual returns, encouraging short-sighted investment approaches.[53]

The lack of standards and regulations related to social risk disclosure, data, analysis, and management is a major roadblock to increasing investors' consideration of longer-term social risks. Regulatory guidance related to ESG (environmental, social, and governance) risk considerations is bolstering these efforts, but investors need more support in examining social risks, and assessing and managing their impacts on social issues. Those investors that identify and manage security-, fund-, or portfolio-level social risks, do so voluntarily and without consistent data or standards and commonly must rely on unregulated third-party sustainability data providers. Their resulting assessments entail any number of issues.[54]

Investors in some countries contend that consideration of social risks as part of investment analysis is contrary to their fiduciary duty.[55] Fiduciary duty typically requires that investors manage assets prudently, loyally, and with impartiality, place their clients' interests above their own, and act in good faith in the interests of their clients (including, for example, current and future retirees).[56] Many investors assert that their central fiduciary obligation is to maximize returns on their investments, which prohibits them from considering risks like those posed by social issues, such as eroding labor standards or climate change.

Attempts by regulators in some countries to clarify that social risks are material financial risks have been vague or confusing.[57] In 2016, the United States Department of Labor, for example, noted that investments that focus on benefits beyond financial returns align with fiduciary duty. But in 2018 and 2020, it issued follow-up guidance stating that financial performance is paramount to fiduciary duty while environmental and social impact is a secondary obligation. Investors in the United States—pension funds in particular—remain uncertain about whether the Department of Labor thinks that ESG issues are material to investment returns and therefore a prudent investment consideration.

Suboptimal outcomes: Eroding labor standards and pervasive inequality

Driven in part by companies' use of profits to enrich shareholders at the expense of other stakeholders (shareholder primacy) and investors' focus on the short term, labor standards have been eroding worldwide for decades. These behaviors promote extractive business practices, with corporations focused on keeping costs (e.g., labor costs) down and increasing and speeding up production while operating on razor thin margins.[58] Workers suffer in the end. For example, real wage growth declined from 0.9% to 0.4% worldwide between 2016 and 2017 despite falling unemployment and has yet to recover to pre-2008 levels. Hourly wages in the United States have grown only 0.2% per year since the 1970s.[59] Further, international watchdog groups estimate that more than 150 products from 77 countries are produced using forced or child labor. Forced and child labor are particularly widespread in the apparel industry, with consumer demand for clothing more than doubling between 2000 and 2014 and creating the "fast fashion" movement.[60]

This **erosion of labor standards** is amplified by companies' increasing embrace of fissuring and globalization. Companies are increasingly subcontracting various business functions to shift costs, responsibility for working conditions, and other liabilities to third parties (e.g., labor brokers or temporary employment agencies) and generate greater profits to be funneled back to shareholders.[61] This includes things like human resource management, information technology, and accounting, janitorial services, food services, and security work. Doing so enables corporations to turn the fixed costs of maintaining these services in-house into the variable costs of choosing among competing vendors. Many of these subcontracted vendors in turn hire subcontractors of their own. Profit margins decrease and labor as a share of overall costs increases as you move down the subcontracting ladder, incentivizing subcontracted companies to cut corners (e.g., cut workers' pay and neglect their safety).[62]

Proponents of globalization cite, among other things, its positive impacts on job creation, competition, and economic growth, but critics warn that the associated subcontracting and offshoring of jobs negatively impacts wages and working conditions in the developed and developing worlds.[63] Garment industry offshoring to cut production costs (e.g., by Walmart and Loblaw), for example, helped to create the poor working conditions that led to a factory fire at Rana Plaza in Bangladesh that killed 200 workers.[64] There are reports that FoxConn (a manufacturer of the Apple iPhone), for example, does not allow talking, laughing, or eating during work hours in its factories in China and requires workers to work up to 29 days per month.[65]

A decline in union membership and the stifling of workers' bargaining power worldwide has prevented workers from organizing to improve their working conditions and disenfranchised them from otherwise contributing to corporate decision-making. Across OECD countries, union membership has dropped to just 16% and the share of American workers in unions has plummeted to just 10% (and just 6.2% for private sector workers).[66] Declining unionization "excludes workers from participating in the government of their workplaces," and further consolidates political, social, and economic power with a few companies and people at the top.[67] Unionization is nearly non-existent among "non-standard" or "atypical" workers—like those that work for third party subcontractors (fissuring) and "gig economy" workers—who are commonly classified as "independent contractors" and therefore legally precluded from organizing in many countries.[68]

The consequences of the worldwide erosion of labor standards have been obvious throughout the Covid-19 pandemic. Nearly a quarter of a million healthcare workers had been sickened by Covid-19 as of June 2020, due in large part to a shortfall of the personal protective equipment needed to safely treat infected patients.[69] In Singapore, the number of Covid-19-infected people increased from about 250 to more than 12,000 in less than three weeks, driven primarily by transmission of the virus among migrant workers living in cramped and unsafe dormitories and with little access to health insurance and paid leave.[70] Essential workers in the United States have been diagnosed with Covid-19 at an alarming rate, including workers in meat and poultry occupations where around 240 facilities saw outbreaks as of July 2020.[71]

Shareholder primacy and short-termism have also contributed to pervasive **inequality**. Economic inequality—both within and between countries—is substantial. In short: the rich, including those who own capital (shareholders), are high earners and are relatively very rich and keep getting richer; while the poor, including laborers and other workers, are low earners and are relatively very poor. By the numbers:

- The world's richest 1% of people have *more than twice as much wealth* as nearly 90% (6.9 billion) of people *combined*;[72]
- 44% of the increase of global income between 1988 and 2008 went to the top 5% of world population;[73] and
- In 2017, 48.6% of global income went to capital owners, while just 6.4% went to the bottom half of laborers.[74]

Further, 85% of people live in countries whose GDP per capita is lower than the GDP per capita of the richest country *at least 50 years ago*; incomes in the 85th percentile in India are equal to that of the bottom 5% in America; and the gap between incomes in Europe and Africa & the Middle East is the largest that it's ever been.[75] In the United States, the wealthiest 10% of people own about 90% of stocks and only 55% of people own stock at all, meaning that market gains—including the record-setting performance of some stock indices during the Covid-19 pandemic—benefit relatively few people.[76]

Structural barriers to education, employment, home ownership, and healthcare (among many others) keep racial and ethnic minorities at the bottom of wealth distribution worldwide. The legacies of slavery and colonization linger in the policy and legal systems of some countries, and resistance to immigration by racial and ethnic minorities in others. In the United States, for example, the "Jim Crow" laws established in the 1800s legalized various forms of racial segregation (e.g., related to employment and homeownership), disenfranchised Black voters, and laid the groundwork for more than a century of Black oppression and white prosperity. Today, Black Americans are twice as likely to be unemployed than white Americans, almost 6 times more likely to be incarcerated, and more likely to live in states without expanded access to subsidized healthcare. They also make 73.4 cents on the dollar earned by white Americans and have lower homeownership rates than white Americans (41% vs. 72%).[77]

A particularly severe problem in the United States, to be sure, structural racial and ethnic inequality persists around the world. Racial and ethnic minorities and migrant laborers in many countries are oftentimes paid less, on average, than their white and native resident counterparts and are unlikely to have enough savings to weather financial stressors (e.g., related to unemployment or illness).[78] Structural obstacles including racial bias and limited racial/ethnic diversity within the criminal justice system plagues countries throughout Europe.[79] Finland, for example—rated one of the freest countries in the world—recorded the highest rates of race-based harassment and violence in all the European Union.[80]

These barriers similarly ensure that women have less money and power than men and otherwise keep women from fully participating in societies. On average, women have just three-quarters of the legal rights afforded to men (and one-half in certain countries) and in some countries are legally prohibited from moving freely, marrying whom they choose, owning their own business, owning real estate, or having pension assets above a certain amount.[81] It was not until 2015 that all women around the world had the right to vote (though it is very difficult for them to exercise this right in many countries), and nearly two-thirds of the world's illiterate people are women.[82]

Women's labor force participation is just 47% (compared to 74% for men), in large part because women and girls (especially those in poverty and from marginalized groups) spend a cumulative 12.5 billion hours each day doing unpaid care work—work that adds at least $10.8 trillion to the economy.[83] Those women who do work earn, on average, $0.85 for every $1.00 earned by a man and have net wealth equal to just 62% of men's (on average, across a sample of 22 OECD countries).[84] Women earn less than men at *every single education level.*[85] Women account for 71% of modern-day slaves.[86]

Economic, racial, and gender inequality have slowed economic growth, reduced upward mobility, contributed to more frequent and deeper recessions, and fractured social cohesion:[87]

- **The wealthy save more and spend less, and income inequality reduces consumption.[88]**
- **If the income share of a country's wealthiest 20% of people increases by 1%, GDP growth is actually 0.08% lower in the subsequent five years (i.e., the benefits do not "trickle down"); whereas a 1% increase in the income share of a country's poorest 20% of people is associated with 0.38% higher growth.[89]**
- **Owners of capital are increasingly more economically and politically powerful than workers, leading to social discontent and tension, political polarity and tendencies toward populism, and general social and political unrest, instability, and dysfunction.[90]**
- **People at the bottom of the wealth distribution—including racial minorities and women—lack access to opportunities to increase their income and wealth (e.g., education), resulting in suboptimal human capital deployment and decreased innovation and productivity.[91] Limiting educational opportunities for girls, for example, costs countries between $15 trillion and $30 trillion dollars in lost lifetime productivity and earnings.[92]**
- **On the flip side, fully integrating women into labor markets in roles equal to that of men could add $28 trillion to global GDP by 2025.[93]**

Such inequalities and their corresponding consequences have been on full display during the Covid-19 pandemic. While people in more than two hundred countries and territories are living through the same pandemic, it is not affecting everyone equally. Racial and ethnic minorities, women, and migrant laborers in many countries are more likely to get sick and die from Covid-19 and to experience the economic devastation caused by shutdowns. These groups are more likely to work in (a) healthcare and other industries and occupations deemed "essential" during the pandemic, or (b) industries and occupations most likely to be laid off first, and (c) otherwise precarious or atypical employment such as short-term, contract, temporary, or "gig" employment.[94] They are less likely to (a) have access to sick leave (paid or unpaid) and health insurance, or (b) be able to work remotely.[95] In the United States, for example: 41% of Black-owned businesses have permanently closed as of July 2020 vs. 17% of white-owned businesses, and Black Americans are 3.5 times more likely to die from Covid-19 than white Americans.[96] In Europe, unemployment had increased by 4.5% for women compared to 1.6% for men by March 2020.[97] Further, political polarity and fractured social cohesion have permeated individuals' acceptance of science-based public health recommendations during the pandemic in some countries, including decisions to wear face coverings (or not), attend larger indoor gatherings, and otherwise practice social distancing.[98]

The resilience of global social and financial systems is being put to the test by the Covid-19 pandemic and it is not going well. Future inevitable social—and environmental (e.g., climate change)—challenges will continue to strain these systems until they eventually break. Such challenges will occur more often, simultaneously, and with greater severity over time. Policymakers, regulators, and investors need to act now to address the weaknesses described above and to increase the resilience and sustainability of these systems before it is too late.

B. Building resilient and sustainable systems
Recommendations for how policymakers, regulators, investors, and investor organizations can build sustainable social and financial systems that are more resilient to future social challenges

Today's lightly regulated markets are not achieving the optimal economic and societal outcomes promised by neoliberal economic theory. They are not encouraging innovation and economic growth, and they are not ensuring the health and well-being—financial and otherwise—of all market participants (society), and they are not adequately contending with increasingly interconnected social and financial system issues. Instead, they are enriching the few at the expense of the many, propagating widespread and severe inequalities, starving societies of needed public resources, hindering economic growth, extracting value, exacerbating class divides, and compromising the integrity and long-term sustainability of social and financial systems.

Ensuring that capital markets effectively fulfill their purpose in society will require all industry stakeholders to acknowledge not only that the neoliberal status quo is not working, but that it has contributed to the spread of a deadly pandemic and the severity of the most devastating global economic depression in nearly one hundred years.

Building the resilience of social and financial systems will require major structural change, change that rejects calls to get back to the "normal" that got the world into this mess in the first place, and that instead focuses on reimagining and building sustainable, resilient social and financial systems that work for all. Of course, it took decades to create the systemic weaknesses detailed in this roadmap and meaningful reform will not happen overnight. But there are things that policymakers and regulators, investors, and the organizations that support investors can start to work on today.

Policymakers and regulators:
Shape financial systems that generate better outcomes for all stakeholders

All industry stakeholders have important roles to play in building sustainable and resilient financial systems, but change must start with policymakers and industry regulators. They must acknowledge that:

- Markets are not natural forces that exist outside of other institutions of society and do not alone generate outcomes that are in the best interests of society;
- Markets and the rules under which they operate are created by other institutions in society, namely government; and
- The rules governing how markets work are crucial determinants for producing a more sustainable and just social, economic, and political order.

They must reject the notion that markets left to their own devices will work for all and their corresponding role as "market fixer" and instead embrace their responsibilities to:

- Shape value-creating market behaviors;
- Ensure the provision of public resources; and
- Protect the public good.

That is, they must address the negative externalities that markets left to their own devices have imposed on society *before the next tragedy strikes* and must ensure that corporations and investors *add value* to economies and that society has the resources that it needs to be resilient and to thrive (e.g., infrastructure, education, and healthcare).

Where to start

Practically speaking, policymakers and regulators must prohibit those industry behaviors that compromise the integrity of systems—value-extracting behaviors that put the needs of a select few stakeholders above all others in direct conflict with markets' purpose of generating positive outcomes for all. They must clarify the duties of corporations and their investors to consider the well-being of all stakeholders—from employees to shareholders, executives to consumers, citizens, and society—when making decisions. Doing so will lay the foundation for new, shared societal norms that drive corporate and investment activity.

It also means equipping investors with information about corporations' behavior vis-à-vis social risks. Such data on social risks can help to hold corporations accountable to policymakers and the public for their actions and can help investors accurately assess value and make prudent long-term investment decisions that enhance (not undermine) systems.

Policymakers and industry regulators can *and should* play a substantial role in helping investors and other stakeholders to collect, analyze, and use these data to effectively and comprehensively assess social risks and avoid investments that jeopardize their long-term interests and global well-being.

Three action steps for shaping corporate behavior and two for shaping investor behavior such that they create value rather than extract it are described below.

ACTION

Ensure that corporations equally prioritize all stakeholders

1. Limit or otherwise regulate excessive use of profits to enrich executives and shareholders at the expense of workers, customers, and innovation (i.e., stock buybacks, dividends, and tax avoidance schemes).
2. Protect workers and empower them to organize, self-advocate, and otherwise be active participants in corporate decision-making (e.g., prevent modern-day slavery; ensure minimum wages, safe and sanitary working conditions, and access to leave and healthcare; ensure secure contracts and schedules).
3. Mandate standardized, decision-useful corporate social risk disclosures throughout operations and supply chains (e.g., related to workforce composition, pay, and human rights).

Among policymakers' and regulators' top priorities should be limiting or otherwise regulating excessive use of profits to enrich executives and shareholders at the expense of workers, customers, and society, the objective being to re-orient corporations and their investors to focus on maximizing value for all stakeholders, not just shareholders.

Conditioning aid is among the core ways that governments can encourage such behaviors. This can include, for example, asserting that: (a) corporations that use some maximum percentage of their profits to repurchase stock or pay dividends—or that shift some maximum percentage of their profits to subsidiaries incorporated in offshore tax havens—are not eligible for government aid; or (b) corporations cannot use government aid to repurchase stock or pay dividends. Several governments have embraced conditional aid to discourage value-extracting corporate behaviors and encourage value creation as part of their Covid-19 relief packages (see box 2). Such actions indicate some acknowledgement that policymakers can and need to direct market behaviors to encourage efficiency and that the political will to do so exists. They provide the foundation from which broader, permanent change can develop.

Box 2. Covid 19 relief package conditions

Governments around the world used their Covid-19 relief packages and associated funds as an opportunity to shape corporate behavior.

- France and The Netherlands provided relief funds to airlines only if they could demonstrate that they are addressing their impact on climate change.
- The United Kingdom provided additional money to those companies that brought back employees from furlough.
- Denmark prohibited companies registered in tax havens from accessing relief funds.
- In the United States, airlines could not spend relief funds on open market repurchases (buybacks) and the government required certain employers to provide employees with paid sick leave or expanded family and medical leave for specified reasons related to Covid-19.

Sources: Gary Rivlin. "The stimulus halts a corporate trick that gouges workers. But it comes too late." March 27, 2020; Katherine Dunn. "Climate conditions on airline government bailouts are rare—and the coronavirus likely won't be an exception." June 26, 2020; Nikolaj Skydsgaard. "Denmark blocks firms registered in tax-havens from state aid." April 20, 2020; United States Department of Labor. "Families First Coronavirus Response Act: Employee Paid Leave Rights." accessed August 21, 2020; Hanna Ziady. "UK to spend $38 billion on restaurant discounts and tax breaks as jobs crisis hits," *CNN Business*, July 8, 2020.

Numerous existing regulations and initiatives provide additional examples of further government strategies to ensure that (a) corporations do not hoard profits for shareholders but instead use them to invest in workers and innovation; and (b) governments have the resources necessary to fund vital public services (e.g., infrastructure, education, public health). The Global Forum on Transparency and Exchange of Information for Tax Purposes—which is supported by OECD and the G20—for example, recommends strategies to policymakers for combatting tax avoidance (e.g., transparency, tax analysis techniques, and information sharing). To date, the Forum has helped governments to identify nearly $120 billion in additional revenue, helped more than eighty developing countries build their capacity to address tax evasion, and assisted nearly seventy regulatory bodies to ensure greater tax-related transparency in their banking sectors.[99] OECD is currently spearheading an international effort to prevent multinational companies from using tax havens, raise an additional $100 billion in corporate tax revenue each year, and prevent a global trade war.[100]

Eliminating or reforming those policies that explicitly enable things like buybacks and dividends will similarly help to protect the interests of all stakeholders. This includes United States' Securities and Exchange Commission Rule 10b-18, which provides a "safe harbor" for companies and their affiliated purchasers that buy back stocks.[101]

Encouraging corporations to voluntarily address shareholder primacy will not work in and of itself; meaningful reform will require laws and regulations. In 2018, for example, 181 CEOs (from companies including Apple, 3M, Wal-Mart, Coca-Cola, UPS, and Oracle) signed a Business Roundtable statement that included a pledge to reject shareholder primacy and to better prioritize all stakeholders.[102] As of the first few months of the Covid-19 pandemic, these same companies have returned 20% more of their profits to shareholders than their peers that did not sign the pledge. These companies were nearly 20% more likely to announce layoffs related to Covid-19, and less likely to donate to Covid-19 relief efforts, offer customer discounts, or shift production to pandemic related goods.[103]

Policymakers and regulators must also directly address eroding labor standards. This starts with protecting all workers' rights to self-advocacy, freedom of association, and collective bargaining.[104] Beyond protecting unionization rights, governments should encourage shifts in the corporate governance systems that help to align incentives of those who control corporations with the interests of workers.[105] This might include requiring companies to include worker representatives on their boards of directors and authorizing companies to use European style "works councils," which require employee representation from different countries within which multinational companies operate.[106] Such collective bargaining rights and workplace standards must apply throughout supply chains and to both native-born and migrant workers.[107] After consultation with stakeholders from across the financial system, Harvard University's Clean Slate for Worker Power project recommends that labor laws ensure that workers have the power to build organizations of countervailing power, address systemic oppression, and demand more equitable nations.[108] The Coalition of Immokalee Workers' (CIW) Fair Food Program is an example of the positive impact that workers can have on improving their own working conditions when empowered to do so. The program's human rights and working conditions guidelines are designed, monitored, and enforced by the farmworkers themselves and in partnership with farmers and retail food companies.[109] It has been called "one of the great human rights success stories of our day."[110]

Protecting and empowering workers also includes ensuring that workplaces are safe, healthy, and productive and that corporations use human capital to its full potential. At baseline, this includes ensuring: the prohibition of all forms of modern-day slavery and child labor; minimum wages; safe and sanitary working conditions; access to sick and family leave and healthcare; and secure contracts and schedules.

Corporations, industries, and industry organizations have launched various efforts to address workers' rights and eroding labor standards. This includes, for example, the Bangladesh Accord on Fire and Building Safety. Signed in 2013 in response to the Rana Plaza garment factory fire (and reaffirmed in 2018), the Accord represents an agreement between nearly two hundred clothing brands to ensure safe working conditions for the more than two million garment workers throughout their supply chains.[111] Though focused on systemic environmental concerns, the Assessing Low Caron Transition (ACT) also provides a useful model for addressing social issues.

Supported by nearly 225 companies, ACT evaluates companies' contributions to climate change, creates a plan for a transition to lower carbon production, and assists in the implementation of the recommendations. Data collected from companies are kept in a database for investors, non-governmental organizations, academics, corporations, and other stakeholders.[112]

Such corporate and worker-led efforts to protect and empower workers are promising, but, as is true of efforts to reform shareholder primacy, legally enforceable codes of conduct are better. Public policy leadership along these lines (e.g., mandated reporting and/or required corporate reforms for poor performance) and related to different labor issues includes:

- **The United Kingdom's Modern Slavery Act of 2015 requires large U.K.-based companies to publish an annual slavery and trafficking statement detailing their management of human tracking, forced labor, labor standards, and health and safety measurements throughout supply chains.[113]**
- **The state of California requires companies to treat most workers as employees rather than independent contractors, which provides them with additional legal protections.[114]**
- **Germany requires companies to use independent officials to evaluate workplace safety and the United States' Occupational Health and Safety Administration provides workplace safety training to companies and enforces related laws and standards.[115]**
- **Denmark ensures collective bargaining rights for most workers; nearly 70% of its workforce is in a union.[116]**
- **France requires large companies to submit to their works council an annual "social balance sheet" cataloguing information about wages, health and safety, working conditions, etc.[117]**
- **The European Union's proposed Human Rights Due Diligence Legislation would require all companies to conduct human rights due diligence as part of their standard processes or be subject to sanctions.[118]**

Finally, policymakers and regulators can also encourage beneficial corporate behavior through mandating standardized, best practice-aligned corporate social risk disclosures across industries and throughout supply chains. Such disclosures enable policymakers, regulators, and other financial system stakeholders to assess and track companies' exposure to, contribution to, and management of social risks. To date, useful guidance for social risk disclosures is abundant (see box 3), but actual corporate disclosures are low and are not standardized.[119]

The European Union's proposed Mandatory Human Rights Due Diligence Legislation, for example, would require companies to disclose data on worker protections and labor conditions using standardized metrics that allow for comparative analysis across countries and industries, and to examine and address their impact on human rights. Such disclosures are important to ensure that corporate transparency, but transparency in and of itself is not enough; such disclosures must also be decision useful. They should be used by governments (and investors) to hold companies appropriately liable for their things like human rights abuses, to otherwise enable system stakeholders to hold poor performers accountable, and to ensure measurable and consequential improvements over time.[120]

Box 3. Useful inputs for mandated corporate social risk disclosures

The following organizations and initiatives provide useful frameworks for the collection and/or analysis of social risk disclosure data for policymakers and regulators:

- ShareAction's **Workforce Disclosure Initiative** (WDI) aims to improve corporate transparency and accountability on workforce issues and provide its forty-nine members (companies and investors) with comprehensive and comparable social risk data. In 2019, WDI collected these data from 118 companies from eleven industry sectors in seventeen countries on companies' direct operations and their supply chains via a 180-question survey that covered 10 thematic areas (e.g., occupational health and safety, workers' rights, and composition and compensation).
- The UAW Retiree Medical Benefits Trusts' **Human Capital Management Coalition**'s petition to the US Securities and Exchange Commission (SEC), which recommends that the SEC require companies to disclose human capital management and that such disclosures require more than just "employee headcount" information. The petition does not specify metrics but instead outlines nine categories of information "deemed fundamental to human capital analysis" (e.g., workforce culture and empowerment, workforce health and safety, human rights, and workforce compensation and incentives). The Coalition filed the petition on behalf of its thirty-two institutional investor members representing $6 trillion in assets.
- The **Committee on Workers' Capital's Guidelines for the Evaluation of Workers' Human Rights and Labour Standards**, which reflect international norms and standards (e.g., UN Guiding Principles for Business and Human Rights, OECD Guidelines for Multinational Enterprises, and ILO Fundamental Conventions) and recommend that investors evaluate companies social performance against about fifty indicators from nine thematic areas (e.g., workforce composition, supply chain, pay levels, and grievance mechanics).
- An independent organization that sets standards for corporate ESG disclosure**, Sustainability Accounting Standards Board (SASB)** assesses and maps the impact of noteworthy ESG issues. It does so as per existing SEC reporting regulations and an additional research and vetting process. SASB's free web-based Materiality Map assesses the extent to which different ESG issues effect financial performance for ten industry sectors and select sub-sectors. Its social risk indicators include human rights and community relations, access and affordability, customer welfare, fair disclosure and labeling, and fair marketing and advertising.

Sources: Committee on Workers' Capital, *Guidelines for the Evaluation of Workers' Human Rights and Labour Standards*, May 2017; Human Capital Management Coalition, "$2.8 Trillion Investor Coalition Petitions U.S. Sec to Require Increased Disclosure of Human Capital Management Information," press release, July 10, 2017; William Burckart and Jessica Ziegler. "Fundamentals of Sustainable Investment: A Guide for Financial Advisors.*" Money Management Institute (MMI) and The Investment Integration Project (TIIP),* March 2019; Workforce Development Initiative, *Workforce Disclosure in 2019: Trends and Insights,* ShareAction, April 2020.

ACTION

Enable investors to embrace long-termism and integrate social risk considerations

1. Require investors to manage social risks.
2. Clarify that social risk management does not conflict with fiduciary duty.

Policymakers must require investors to manage social risks, including those related to human capital management. Investors should treat social risks as material financial risks and value them accordingly. This includes, for example, examining corporations' treatment of their workers throughout their supply chains, which is a critical aspect of their long-term competitive strategy. For instance, employee satisfaction and motivation can impact their productive capabilities and effective human capital management can increase competitiveness and drive long-term value.[121] As an initial step in this process, regulators might build on efforts to establish voluntary workforce-related disclosure frameworks currently.

SASB's human capital metrics are one such effort to develop a market-informed and evidenced-based framework for identifying the financially-material impacts of relevant human capital management issues, such as labor practices, employee safety and health, and diversity and inclusion.[122] The U.N.-backed Principles for Responsible Investment provides guidelines for and supports its more than three thousand investor signatories in (a) incorporating social risk considerations into their investment decision-making alongside environmental and governance factors in line with its six established principles for doing so and (b) reporting on their progress over time.[123] Additional efforts along these lines might borrow lessons learned from the likes of The Central Banks and Supervisors Network for Greening the Financial System, which helped to definitively establish the materiality of climate change risks and their likely impacts on companies' financial prospects and investment portfolios.[124]

Furthermore, where necessary, policymakers need to clarify that social risk management does not conflict with fiduciary duty. Specifically, policymakers need to specify that fiduciary duty in fact requires investors evaluate material ESG considerations. They should do so in line with recommendations outlined by the United Nations Environmental Programme Finance Initiative which state that "investors that fail to incorporate ESG issues are failing their fiduciary duties and are increasingly likely to be subject to legal challenge" and urge them to incorporate social considerations (alongside environmental and governance considerations) into investment decision-making and encourage holdings to improve social performance and promote resiliency in the financial system.[125]

Investors:
Balance short- and long-term considerations, immediate returns and value

Investment is built, in large part, on the predictability and reliability of social and financial systems. These systems must be able to withstand external shocks such as the Covid-19 pandemic. Stable systems promote healthy markets; unstable systems lead to reduced, negative, and volatile market returns. The decisions made daily by investors impact the fate of these systems and their ability to withstand shocks. They drive benchmark indexes up and down, affect the economy, and can tip the scales either toward social and economic crises or stability.[126]

Investors have a crucial role to play in rejecting neoliberalism and shaping sustainable social and financial systems that work for all. As the industry stakeholders responsible for providing capital to financial markets, investors across asset classes can have an outsized influence on corporate behaviors and overall market activity—influence that they can and should wield to help to empower workers, improve labor standards, and reduce inequalities.[127] Doing so is not only material to their financial interest, but it can help them to create long-term value and promote systemic stability while still operating profitably and enjoying competitive returns.

Where to start

Practically speaking, this means adopting investment practices that balance short-term profits with long-term value creation, known as "system-level investment." System-level investment can help investors to address the full spectrum of contemporary social and financial system challenges, but investors' immediate efforts should focus on addressing the value-extracting behaviors described in this roadmap—behaviors that pose near-term threats and that they can have a direct and immediate impact on, to the benefit of their portfolios and that of broader systems.[128]

They should use the entirety of system-level investing techniques at their disposal, but might emphasize those that leverage collective action and public policy advocacy to have the greatest impact in the shortest time.

ACTION

Think beyond individual securities and portfolios and consider broader social and financial systems.

Utilize system-level investing—and, namely, those system-level investing techniques that leverage collective action and influence public policy—to address value-extracting behaviors, eroding labor standards (and worker disenfranchisement), and inequality.

System-level investing helps investors—be they institutions, families, or individuals—to recognize the scope and scale of their impact and influence on social and financial systems and the economy, and guides them in intentionally managing this impact toward the goals of:

- Minimizing long-term systemic risks;
- Capitalizing on related opportunities for long-term value creation; and
- Building resilient systems that support investments across all asset classes.

Investors should adopt system-level investing and pursue these goals alongside their ongoing management of portfolio risks and rewards and their pursuit of competitive returns. Doing so builds on increasingly popular and more mainstream sustainable investing, through which investors focus on ensuring that their individual investments are not subject to excessive ESG risks and pursue incremental social or environmental impact alongside financial return.

System-level investing can include allocating investments to asset classes well-suited for addressing different social and financial system issues (see table 3). This means that, in addition to examining the extent to which different asset classes align with their risk appetites and return expectations, investors should also consider the potential system-level impacts of their investments—whether and how different asset classes help to fortify or detract from the health of social and financial systems.

Table 3. Leveraging the purposes of different asset classes to address systemic challenges in different ways

Equities		
Public equities	Stocks in large firms traded on public exchanges	• Companies are required to disclose their financials and business strategies, providing investors with data and access in order to pressure companies to operate efficiently and in theirs and the public's long-term interests • Can be used to set models for corporate management and behavior across industries related to social or financial system issues
Private equity	Direct ownership by investors in for-profit enterprises	• "Cuts out the middleman" (the equity funds), giving investors full knowledge of and control over their investments' business models and practices, and social and environmental impacts
Venture capital	Equity ownership or investments in small-scale private equity and small-capitalization publicly traded stocks	• Designed for rapid disruptive change, enabling investors to help create business models that solve the most challenging systemic risks • Includes systemically focused "solutions" funds that target solutions to environmental or social challenges (e.g., funds targeted to renewable energy)
Debt		
Bonds	Securities that facilitate institutions and individuals in the trading of loans	• Can be used to fund public goods and support social infrastructures that build a long-term foundation for economic stability and hence for investment opportunities • Investors can participate in the creation of, and set standards for, markets for new types of bonds (as they have with green bonds)
Sovereign debt	Bonds issued by national and municipal governments	• Investors can invest in securities that fund a variety of public goods (e.g., affordable housing, small business loans, farm credits, education, healthcare, and infrastructure) and general obligations of the government (e.g. security, research and development, public transportation)
Loans	Commercial and retail banks	• Investors can pressure banks to consider the social impacts of their loans (i.e., their financing for activities that can be viewed as posing systemic risks)
Real assets		
Real estate	Ownership of residential, commercial, or industrial properties	• Investors can advocate for green energy or affordable housing throughout neighborhoods or regions • They can also promote the adoption and implementation of environmental and social standards throughout the commercial real estate asset class
Infra-structure	Infrastructure as an investment asset class	• Investors can use multiple, coordinated infrastructure investments to catalyze economic development and empowerment throughout a locality

System-level investing can also include extending traditional or conventional investment practices to contend with social and financial system risks and invest in related solutions. Specifically, this means:

- *Reflecting social and financial system concerns in investment beliefs.* Investors often state their beliefs—their guiding assertions—about how financial markets work and how their activities relate to those markets in Investment Policy Statements or Investment Beliefs Statements. Investors can integrate their beliefs about the importance of, and interconnection between, the health of social and financial systems in these statements and the related threats to or opportunities for their investment portfolios.

- *Emphasizing systemic issues in security selection and portfolio construction.* Security selection and portfolio construction are the incorporation of risk-control and related considerations into the investment process. Investors can include in this process setting of standards or minimum thresholds for social conduct for whole industries based on problematic business models or issues (say, human rights).

- *Engaging with holdings about social and financial system issues.* Investors commonly communicate with corporate managers when dissatisfied with a company's financial performance and sometimes to improve their ESG policies and practices and reduce ESG risks. Investors can extend this engagement beyond activism or engagement with individual firms by joining in efforts to change systems at the core.

- *Evaluating and selecting managers based on their consideration of social and financial system issues.* Manager selection involves the incorporation of investment criteria into the selection and monitoring of external vendors used to manage assets. Investors can ensure that their external managers' beliefs and actions reflect alignment with investors' beliefs about and commitments to addressing systemic social and financial issues.

Finally, system-level investing can also include the adoption of new techniques that are explicitly designed to help investors to influence social and financial systems and that can help prevent undesirable outcomes from occurring in the first place, rather than struggling with them once they happen. Particularly forward-looking investors are pioneering a wide range of such techniques designed to contend with contemporary social and financial system challenges. These techniques stress collaborative action, building shared knowledge bases, setting industry standards, and approaches to creating a rising tide of investment opportunities for all investors. In doing so, they focus on key leverage points that can strengthen overall social and financial systems, enhance their resilience, and ensure their long-term sustainability. They can be grouped according to three broad or overarching tactics: field-building, investment enhancement, and opportunity generation.

Table 4 describes these techniques and provides examples of their real-world use by investors; many of these examples relate to environmental issues (which investors have thus far been more readily addressing than social issues) but can be translated to the context of systemic social risks.

Table 4. System-level investing tools for influencing social and financial systems

Field-building tools		
Self-organization	Create collaborative organizational structures across the investment industry to build its capacity to address systemic challenges.	Toniic, created in 2010, has four hundred members from twenty-five countries collaborating to create a global financial ecosystem that generates positive financial and environmental returns.
Interconnectedness	Increase the flow of information and communication about social, financial, and environmental systems among peers, with clients, and with the public at large.	CalPERS' *Sustainable Investment Research Initiative* facilitates scholarly reviews of system-related research, convenes researchers to discuss ESG factors, and manages a public online database of 1,900 related studies.
Polity	Engage in public policy debates about governmental rules and regulations that can have a positive impact on whole systems relevant to investments.	In 2014 Aviva Investors presented at a U.N. event a report on how international policymakers can reform capital markets to tackle climate change and encourage sustainability.
Investment enhancement tools		
Diversity of approaches	Use of a diverse range of investment tools to address complex systemic challenges.	New Zealand Superannuation uses approaches including transitioning its equity portfolios to a low-carbon strategy and direct investments in alternative energy and infrastructure to address climate change.
Standards setting	Establish standards that discourage investments in industries and countries with practices that violate broadly accepted standards or norms, or to contribute to the development of such standards.	Norges Bank Investment Management participated with the OECD standard-setting initiative relating to the extractives industry and the stability of the financial markets.
Solutions	Identify investments that both profit from the most pressing system-level challenges and resolve them positively.	PGGM has allocated a multi-billion-dollar portion of its assets to solutions to four issues: climate change, food security, health care, and water.
Opportunity generation tools		
Additionality	Invest in underserved people and address unmet environmental or social needs or markets.	Bridges Funds Management targets opportunities that create jobs and improve workers' skills and promotes healthcare in historically underserved communities while emphasizing sustainable living.
Locality	Invest to strengthen the environmental or social systems within a given geographic area—a city, state, region or country.	Quebec's Fonds de Solidarité, a labor-sponsored capital investment fund started in 1983 following a regional financial crisis, focuses on fortifying Quebec's economy while generating returns for fund beneficiaries through things like job creation, investments in SMEs, and democratizing workplaces.
Evaluations	Look beyond quantifiable price and evaluate the potential of systems to provide the stability and predictability necessary to create a fertile field for investment opportunities.	The Construction and Building Unions Superannuation believes that various difficult-to-value "capitals" (e.g. human capital, intellectual capital, and social and relationship capital) are integral to its investment process and for creating long-term value.
Utility	Maximize the alignment of specific investments within a portfolio's asset classes with the social functions that these asset classes were designed to serve.	Prudential Group Investment Management (Newark, New Jersey) and Caisse de dépôt et placement du Québec (Montreal, Québec) make infrastructure investments aimed at strengthening local economic systems.

Investors' immediate system-level investing efforts should focus on addressing the value-extracting behaviors described in this roadmap; those specific social and financial system issues that pose near-term threats and that they can have a direct and immediate impact on to the benefit of their portfolios and that of broader systems.[129] They should, for example:

- Set expectations with corporations that they pay their share of taxes and promote the integration of tax policies into corporate social responsibility efforts;
- Assess the short- and long-term effects of the model of tying executive compensation to stock price and support the research and development of alternative incentivization models that balance rewarding executives with making investments in employees;
- Formalize investment belief statements that workers' rights and labor relations are material to companies' success, incorporate expectations for fair treatment of workers throughout supply chains into management and engagement, commit to helping empower workers to organize and self-advocate, and develop and implement responsible contractor and procurement policies; and
- Adopt responsible contractor policies that stipulate a preference for the use of contractors and subcontractors that provide fair wages and benefits (usually defined in the context of local circumstances) and adequate training, and that employ unionized workers.

They should use the entirety of system-level investing techniques at their disposal to manage these risks but might emphasize those that leverage collective action and public policy advocacy to have the greatest impact on the most pressing systemic social issues in the shortest time: *polity and self-organization*.

Investors should vocally and publicly advocate for policy and regulatory reforms; that is, they should *get political* (polity).[130] Investors should publicly articulate positions on shareholder primacy and short-termism; proactively advocate for related market reforms; and vocally support proposals for needed reforms. They should unequivocally state the following and pressure policymakers and regulators to enact commensurate change: (a) income inequality hinders growth and destabilizes society; (b) workers should have the right to freely associate and engage in collective bargaining over terms and conditions of employment; (c) all workers should earn an equitable, living wage; (d) taxes are vital to sustaining social capital that supports long-term investment and governments should minimize tax avoidance and evasion; and (e) social risk disclosures should be mandatory for all companies (public and private). Doing so can create real, meaningful change. The California Public Employees' Retirement System (CalPERS), for example, recently divested its holdings from the Philippines given analysis that the country "created an untenable risk/reward situation" for foreign investors, causing a 3.3% drop in the Manila exchange and leading the Philippines to change its laws.[131]

Finally, investors should utilize collective action to amplify their messaging and influence (self-organization). In the competitive financial world, investors typically "keep their cards close to their chest" and rarely collaborate with their peers. But reforming social and financial systems such that they benefit all stakeholders—and create a rising tide for all investors—will require coordination and collaboration. Such collective action has been instrumental in advancing policy reforms and creating big social change. Take, for example, how American investors divested from companies doing business in South Africa and urged companies to withdraw their operations from the country if apartheid persisted, promoting passage of legislation ending the country's racial segregation practices.[132] Investor-led coalitions are increasingly organizing to pressure corporations to improve labor standards and to empower workers' voices in creating positive change in their workplaces (see box 4).

Box 4. Investors organizing to pressure corporations to improve labor standards and to empower workers to create positive change in their workplaces

As large influential shareholders, investors should organize to pressure corporations to address the various systemic social issues outlined in this roadmap, but they should also organize to support and empower workers to lead efforts to create workplace change.

Investors supporting change from *the top down*—pressuring corporations:

The Cleaning Accountability Framework (CAF) is a multi-stakeholder coalition of investors (including Australian Super and AMP Capital), unions, real estate developers, facility managers, academic institutions and the Australian government's Fair Work Ombudsman department. It promotes responsible contracting policies that protect the rights of workers providing cleaning services to properties owned by institutional investors. The CAF provides its members with a Code of Conduct and a procurement toolkit with industry and market-specific pricing and quality-of-service benchmarks. These tools are intended to ensure compliance with labor standards, and taxation and retirement responsibilities, as well as disclosure and worker health and safety standards. It has also developed a three-star rating system for the certification of properties' cleaning services, which it intends to expand to include more rigorous four-star and five-star ratings.

Investors supporting change from *the bottom up*—empowering workers:

A collaboration between fifteen financial institutions with more than $3 trillion in assets, **Platform Living Wage Financials (PLWF)** encourages and monitors investee companies that use manual labor (e.g., garment and footwear, food and beverage) to pay workers a living wage that enables them, at minimum, to cover basic living expenses in accordance with ILO, OECD, and U.N. guidelines and principles. Recognizing that living wages are a systemic issue, PLWF's ultimate goal is to identify and highlight companies that are leading on the issue and, in turn, motivate their industry peers to follow suit.

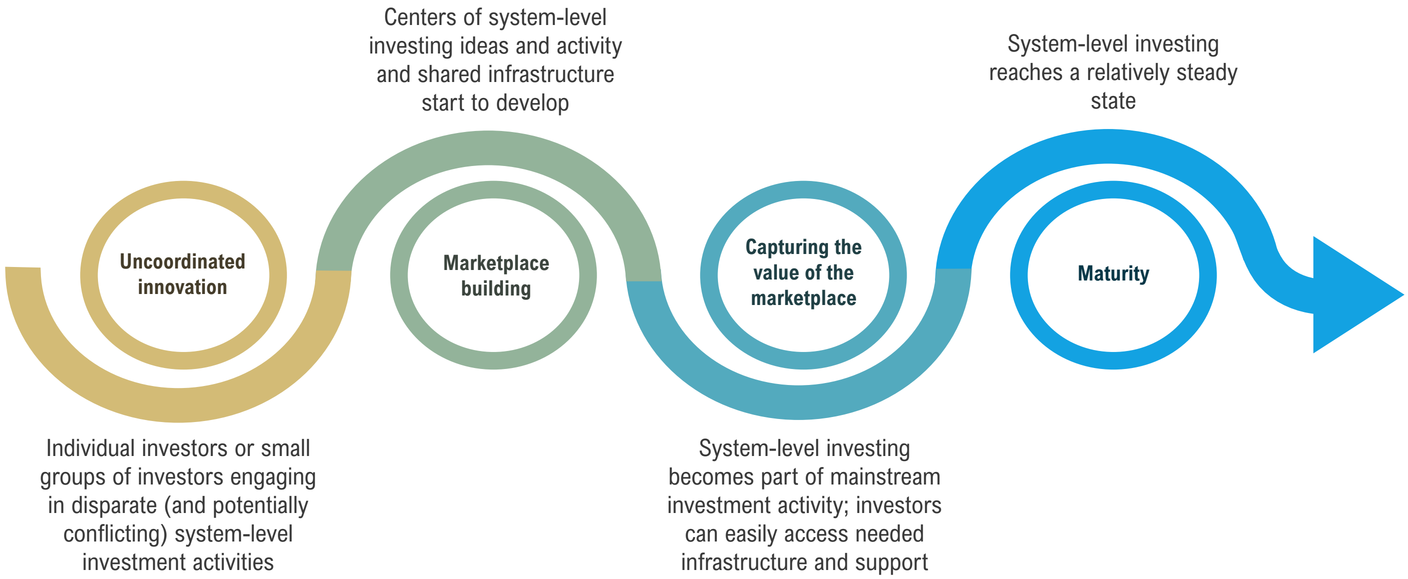
Sources: Principles for Responsible Investment (PRI) and The Investment Integration Project (TIIP), *Why and how investors can respond to income inequality*, 2018, https://www.tiiproject.com/wp-content/uploads/2018/10/Why-and-How-Investors-Can-Respond-to-Income-Inequality.pdf; "Why living wage?" *Platform Living Wage Financial (PLWF)*, accessed on October 20, 2020, https://www.livingwage.nl/platform-living-wage-financials/why-living-wage/.

Support from financial industry organizations

Investors do not have to work to influence systemic reform through system-level investing—and, namely, collective action and public policy advocacy—on their own; financial industry organizations and initiatives can help. These organizations have the capacity and expertise necessary to support investors in considering the interconnection between social and financial systems and assessing social and financial system challenges while they are otherwise busy with the day-to-day demands of investment analysis and transactions. They can include investor associations (investor-led and other), research-based institutions, standards-setting organizations, and data and analytics providers.

Importantly, financial industry organizations can usher investors and other financial system actors through the needed phases of financial industry evolution (figure 3). That is, they can identify disparate and uncoordinated system-level investing activities focused on inequality, eroding labor standards, and other social and financial system challenges (the current state of affairs), build a collaborative and efficient marketplace of system-level investing ideas and activities based on shared objectives (in the near term), and support the growth and maturation of system-level investing over time.[133]

Figure 3. Financial industry organizations: Helping investors turn system-level goals and good intentions into effective and efficient action



Note: Based on concepts introduced in: Monitor Institute. *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry.* 2009.

Practically speaking, this means: raising investors' and the rest of the financial systems' awareness about interconnected social and financial system issues; fostering and moderating needed debate and thought leadership; developing new theoretical frameworks; coordinating collective goal-setting; helping investors obtain and use standardized and comparable information and data; and providing needed system-level investing education, training, and practical implementation support. It also means identifying and disseminating best practices and helping to sustain and grow these efforts over time.

Much like how the Global Impacting Investing Network (GIIN) and the PRI provide global leadership along these lines to impact and responsible investors respectively, investors now need an organization or collaborative of organizations to do so for system-level investing and addressing the social and financial system challenges outlined in this roadmap. Such an organization (or organizations) could learn, borrow, and grow from efforts launched to address systemic financial system challenges after the financial crisis in 2008 and newly-developed initiatives launched to triage the near-term impacts of the Covid-19 pandemic on investors and the broader financial system (see box 5).

Box 5. Financial industry organizations can learn, borrow, and grow from ongoing efforts to help investors collaboratively address systemic challenges and the fallout from the Covid-19 pandemic

The Systemic Risk Council was launched by the CFA Institute and The Pew Charitable Trusts in 2012 in response to the ongoing financial turmoil resulting from the 2008 financial crisis and concerns about the systemic vulnerabilities that contributed to the ensuing global economic collapse. Still in operation today, the Council is a private, non-partisan collaboration between former government officials and financial and legal experts. Free from industry pressure, the Council provides recommendations for the change necessary in the industry and not simply change the financial industry would accept, related to financial system issues including:

- Industry oversight and transparency;
- Capital holdings requirements (quality and quantity);
- Risk taking in the "shadow sector";
- Data and analytics systems; and
- International coordination on all the above.

PRI and the **GIIN** and have both recently launched initiatives focused on guiding investors in triaging the fallout from the Covid-19 pandemic. PRI's multi-phase plan encourages and promotes collaboration among investors on those social issues made even worse by the pandemic (e.g., human and labor rights, inequality, and public health) and on sustainable and inclusive recovery and reform and the continued function of the financial system. The GIIN's R3 Coalition (response, recovery, resilience) is focused on streamlining impact investing efforts that will address the social and economic consequences of COVID-19, including efforts to: find high-impact investment opportunities for network members; identify and fill financing gaps through coordinated efforts among members; direct new capital to high-impact solutions; and share learning, resources, insights and data to the wider investment community in order to support long-term economic recovery and resiliency in the face of the pandemic.

Finally, the **Omidyar Network**—a philanthropic institution—advocates and recommends action steps for structural financial system reform. This includes confronting the fact that capitalism is broken; addressing racial, economic, and geographic inequalities; and promoting inclusive economies that work for all stakeholders. The Network provides financial and networking support to organizations that are rethinking the prevailing economic theories of the day (e.g., neoliberalism), advancing labor reforms, and fostering competition to combat monopolistic activities.

Sources: CFA Institute, "The Systemic Risk Council," *CFA Institute,* accessed October 6, 2020, https://www.systemicriskcouncil.org/; Global Impact Investing Network (GIIN), "Response, Recovery, and Resilience Investment Coalition," accessed October 3, 2020, https://thegiin.org/r3coalition; Global Impact Investing Network (GIIN), "Global Impact Investing Network Launches 'Response, Recovery, And Resilience Investment Coalition' to Facilitate Covid-19 Related Impact Investments," *Press Release,* May 12, 2020; Omidyar Network, "Omidyar Network," *Omidyar Network*, accessed October 6, 2020, https://omidyar.com/; Principles for Responsible Investment (PRI), "COVID-19 resources," *PRI,* accessed October 6, 2020, https://www.unpri.org/covid-19.

Using profits and investment capital to protect and support all financial system stakeholders will make the financial and social system more resilient and adaptable to future distress. It will help to ensure, for example, that companies are more solvent and therefore better able to retain workers through wage cuts and furloughs rather than enacting mass layoffs. It will also help to ensure that workers—paid a living wage and provided access to sick leave—can better withstand illness and short-term economic hardships. And it will ensure that governments have the resources needed to otherwise cushion the blow from social (and environmental) shocks and ensure that all corporations and people have access to the health and social infrastructure necessary to prevent or adequately respond to emergencies like a pandemic.

Conclusion

The Covid-19 pandemic has exposed that increasingly interconnected global social and financial systems are just one disruption away from disaster. It has made it abundantly clear that social and financial systems for decades have benefited the few at the expense of the many and are, even in the best of times, not functioning well for most working people. These include those workers deemed to be "essential" during the pandemic (e.g., nurses, aides, and janitors in hospitals, grocery store clerks, meatpackers, and farmworkers) and who—sometimes lacking adequate healthcare and paid leave—risked illness and their lives while others stayed safely at home. It will not be easy to fix the social, financial, and economic damage caused by the Covid-19 pandemic and it will take an especially long time for those who are suffering the worst now to get back onto their feet (i.e., the owners and employees of small businesses, the tourist and airline industries, and individuals that have been driven into bankruptcy).

Ensuring that capital markets effectively create value, fulfill their promise of economic growth that creates prosperity for all, and contribute to building and maintaining the social structures that sustain corporations and investors (e.g., infrastructure, education, public health) will require major structural change and action from policymakers, regulators, and investors alike.

Government actors can reject flawed economic theory (neoliberalism) and regulate excessive use of profits to enrich those at the top at everyone else's expense (stock buybacks, dividends, and tax avoidance) that contributed to the erosion of labor standards and pervasive inequality worldwide. They can also protect workers and empower them to participate in corporate decision-making and mandate social risk disclosures by corporations and management by investors.

Investors can reinforce these efforts by adopting system-level investment techniques that balance short-term profits with long-term value creation and by otherwise getting political and leveraging their collective influence to pressure corporations and policymakers to enact needed reforms. This includes pushing for change from the top down and the bottom up—ensuring, for example, that corporations disclose social risk information, pay their fair share of taxes, and only work with subcontractors who treat their workers well and supporting worker-led initiatives to create change in their workplaces.

The Covid-19 pandemic will eventually end, but even if global economies and markets recover quickly, the next crisis—climate change—awaits around the corner and will most certainly be but one of the many social (and environmental) disturbances that occur more often, simultaneously, and with greater severity over time.

"Getting back to normal" is not an option. The same flawed theory and value-extracting behaviors that contribute to eroding labor standards and income inequality are making companies, investors, workers, and society susceptible to the imminent impacts of climate change. They are putting the world's most vulnerable people (racial and ethnic minorities and low-income communities) at disproportionate risk for its health and economic consequences. Further, they are helping to deepen fractured social cohesion and political polarity, preventing some policymakers from following science-based mitigation recommendations or even acknowledging that climate change exists at all.

Financial system stakeholders cannot turn back time and prevent the social, financial, and economic fallout from the Covid-19 pandemic, but they can capitalize on this experience as a dress rehearsal for impending and interconnected systemic challenges like climate change and as an opportunity to get to work implementing the recommendations from this roadmap and making financial and social systems more resilient. This is their opportunity to reimagine what managing companies, running governments, and being an investor in the 21st century looks like.

About this project

Project interviews

TIIP thanks the following industry experts for lending their insights to project interviews:

Name	Role Organization
Andrea Armeni	Executive Director Transform Finance
Rachel Bass	Senior Manager, Research The Global Impact Investing Network (GIIN)
Dana Bezerra	President The F.B. Heron Foundation
Bob Dannhauser	Senior Advisor The Investment Integration Project (TIIP)
David Erickson	Senior Vice President Federal Reserve Bank of New York
Carla Fredericks	Director First Peoples Worldwide
Sarah Hoyt	Investment Director, Sustainable and Impact Investing Cambridge Associates
Jon Lukomnik	Managing Partner Sinclair Capital
Tim Youmans	Lead, EOS North America Federated Hermes International

The Investment Integration Project and the Moving the Market Initiative

The Investment Integration Project (TIIP)

TIIP's mission is to help investors understand how healthy environmental, social, and financial systems can benefit their portfolios. TIIP provides thought leadership, research, and consulting services that support investors' pursuit of system-level investing, an advanced sustainable investing approach that focuses on managing systemic risks and investing in solutions to systemic problems. For more information, visit https://www.tiiproject.com.

Moving the Market (MtM) Initiative

MtM is a collaboration between Humanity United, UBS Optimus Foundation, and The Freedom Fund that is seeking to meaningfully shift investor approaches to, and increase the development and use of, social metrics that address modern slavery. For modern slavery to be eliminated all actors should come to the table, including the financial sector.

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