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YOU ARGUE THAT CAPITALISM IS AT A CRITICAL CROSSROADS.

Capitalism, or if you prefer market-economy systems, have to adapt if they are going to continue to thrive. Market economies are by far the most successful systems for creating prosperity and lifting people out of poverty. Besides the economic gains, it is the system most compatible with what humans tend to value: freedom, choice, fairness. But we have seen recently a backlash against capitalism because of the impact of globalization, because of the imminent and ripple effects of the great financial crisis in 2008. We have seen a backlash also against the so-called elites: political, financial and corporate. And there is an issue of legitimacy that we should address in a decisive and, of course, intelligent way.

The values you associated with capitalism—freedom, fairness—aren't the words many would use to describe the system. What has changed?

You are right. It wasn't the perception, at least not in the mainstream, but today it is becoming more so. To be fair, in a European context, soon after World War II the concept of the social market economy was developed. It came from, in fact, *soziale marktwirtschaft*, the model that combined the market economy and the ideas of openness, competition

A EUROPEAN VIEW Of Responsible Capitalism

Under **JOSÉ MANUEL BARROSO'S** leadership, the European Commission implemented prescient policies on climate change and sustainability. Now, as Chairman of Goldman Sachs International in London, he argues that capitalism needs to evolve. He spoke with Brunswick's **ALEXANDRA ABREU LOUREIRO.**

and competitiveness, with the idea of strong social commitment, namely the welfare state.

I personally favor this broader concept of a social market economy, and have said so for many years. We have recently seen the rise of impact investing, which is aligned with this general approach of combining the attachment to a market economy but also with a broader social approach.

It sounds like you are making the case for a more responsible capitalism.

Exactly. That is exactly the point. Responsibility toward the shareholder, certainly. Without profit we cannot have successful economies. But profit is not sufficient. They must also look at the social impact—the impact on environment, the communities and the society at large.

That seems to be the direction that the market is moving.

Yes, I agree. There is a growing awareness, and that's only going to intensify. According to the Global Impact Investing Network, the size of the global impact investment market is \$500 billion—impressive, but still a small fraction of the \$2.9 trillion or so that will likely be managed by private equity firms worldwide in 2020.

There is no doubt that we have room to grow and a lot needs to be done in this space. I think no responsible company can make plans without considering climate transition and inclusiveness.

There's no choice but to act responsibly?

I believe so. Because it makes sense from a social point of view but also as a business case. It is the right thing to do. We are seeing major investors, from pension funds to sovereign funds and investment banks, scrutinizing their portfolio of investments according to these issues.

Today if the private sector is not seen also as part of the solution to these issues there may be some backlash that can be detrimental from a market economy and a shareholder's point of view.

And this is now becoming mainstream. I'm in contact with many of the global decision-makers on these matters and I can tell you, it is not just the public authorities that are now putting that at the top of the list.

Look at the European Commission with this new European green deal. It is just not public entities and international organizations and governments that are involved but also major actors in the financial world that are accepting this as a priority.

"I BELIEVE NOTHING WILL HAPPEN IF WE DON'T HAVE THE PRIVATE SECTOR INVOLVED... AND WITHIN THE PRIVATE SECTOR, THE COMMITMENT OF THE FINANCIAL SECTOR PLAYS A VERY DECISIVE ROLE."

This is what sits at the heart of corporate initiatives such as the CEO Business Roundtable. A wake-up call for some, shunned as "washing" for others. What do you think?

I believe it is sincere, of course in light of self-interest if I may say so, but it makes sense from all points of view. The key there is transparency, so the public at large can judge and assess if this corresponds to something serious and meaningful or if it is just, let's say in some cases, a PR exercise. I believe there is sincerity.

You've mentioned that important initiative of the CEO Business Roundtable; let me mention Goldman Sachs's recent initiative joining efforts with Michael Bloomberg, Allianz Global Investors, the insurance firm AXA, the Italian energy giant ENEL, HSBC, Japan's Government Pension Investment Fund and Macquarie as part of the climate finance leadership initiative. They have launched a dedicated effort that will accelerate sustainable finance across climate transition and inclusive growth.

From a Goldman Sachs perspective, we are very excited about finding ways to scale innovative climate solutions. Our global CEO, David Solomon, made it clear that Goldman Sachs will target \$750 billion of financing, investing and advisory activity to some areas that focus on climate transition and inclusive growth.

We mean business when we speak about putting these goals of sustainability—specifically the climate transition and inclusive growth—at the top of the agenda. Because I believe nothing will happen if we don't have the private sector involved.

On climate change, we need certainly the government, we need to some extent the philanthropists, but we will not succeed if there is not a commitment of the private sector. And within the private sector, the commitment of the financial sector plays a very decisive role.

Some companies may shy away from the scrutiny and choose to not talk about their efforts. Is that a good idea?

Private or public, this concern will grow. It will be wise for all companies to consider as much when they take their decisions. Plan for that. I'm a realist, a pragmatist. I appreciate we have to do that in an intelligent way. We need to understand that, for the time being, there will be fossil fuels, there will be an automotive and an aviation industry. What we have to do is to address these issues in a constructive and rational way, supporting the transition, finding the right balance.

Is sustainability a short or a long term-concept for investors?

Both. From a long-term perspective, of course, it is important to be sustainable and to include all the variables of ESG. But already companies are facing pressure, from consumers, even from regulators.

For instance, here in Britain, Mark Carney [Governor of the Bank of England] mentioned the need for all companies in the financial sector to have their plans ready now—not in a few years' time, but now.

Corporate tax is another urgent and rising conversation for business leaders. Some say richer people should pay more tax, others will argue the exact opposite. Who do you side with?

This decision needs to be taken at the national level according to the priorities of the country. I don't have a kind of a religion on that matter. A country's success doesn't seem determined by its tax rates. Of course, generally-speaking, business communities prefer lower corporate tax.

Honestly, I'm instinctively in favor of lower rather than higher taxes. I believe that in some of our societies, the state takes too much of the product of work of those citizens, so I am for a more efficient state than we have in many of our societies. Having said that, each country's priorities and needs are different.

When presiding over the European Commission, did you see this conversation coming?

Let me say with some pride that it was my Commission that put forward at that time the most ambitious program [Europe 2020] to fight climate change and reduce greenhouse gases by 2020. The EU in fact has been leading efforts on climate change. So, yes—we have seen the need to act more responsibly for a more sustainable growth. To be frank, there was not the same level of urgency as we feel now on the issue of impact investment before the financial crisis, as we have today. I think that the financial crisis, at least in Europe, but I believe also in other parts of the world, has created, from a political and social point of view, a much more acute perception of the unfairness of the growing inequalities.

And we need to address inequality—perhaps more than ever—if we want to avoid extremist alternatives coming either from the far left or the far right. We have seen, in some of our more advanced democracies and market economies, the rise of nationalist, populist and protectionist

"GOLDMAN SACHS WILL TARGET 750 BILLION DOLLARS OF FINANCING, INVESTING AND ADVISORY ACTIVITY TO SOME AREAS THAT FOCUS ON CLIMATE TRANSITION AND INCLUSIVE GROWTH."

trends, sometimes even xenophobic forces. This is largely the result of the perception that there is a growing inequality.

Some argue that capitalism is rigged. Yet we have never seen so many democratic societies.

Yes, but to be fair, I think there's no longer the illusion that was there after the war that democracy or market economy would be inevitably the end of history. Today, we have some systems that try to present an alternative, including systems that were totalitarian once.

They argue that such approaches avoid the divisive and polarized nature of democracies, at least some of the more competitive democracies. I don't agree with that. I think that over the long-term democracies are certainly more sustainable and stable than authoritarian regimes, but we must be attentive to the fact that on the so-called political market, democracy is not the only offer. And market economy is also not the only offer. So, we have to legitimize our choices with results—otherwise more extreme options seem viable.

What's next for capitalism?

I still think capitalism—although I prefer to stick to the designation of market economy systems because capitalism has already a kind of an ideologically biased connotation—has the brightest future of any of the options out there. It's the most compatible with human nature.

People want to take their decisions freely about what they consume, about what they buy and sell, what kind investments they can make and to which goals they can aspire. That is basically an idea of freedom that is critical, together with peace and human dignity. Other systems, sometimes born with good intentions, in fact have not been able to ensure freedom.

Our societies have evolved, and there are more subjective interests to factor in. Still, market economies remain the more sustainable system over a long period of time. But we have to face the fact that there is a serious social and political backlash. Capitalism has to transform and adapt to new conditions if it going to continue to be the most successful economic system we've created. ♦

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