

A New Social Contract for People and Planet

Article by Philippe Pochet, Sara Matthieu

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Today our societies seem more unequal than ever before. Yet European Institutions and most policy-makers seem reluctant to discuss the problem, proposing only minor legislative tweaks rather than bold policies to provide real solutions. In this interview Green MEP Sara Matthieu and trade unionist Philippe Pochet discuss why a fair system that tackles social inequalities and prioritises people's wellbeing and quality of life will be crucial in the fight against climate change.

Green European Journal: Our societies continue to be marked by sharp inequalities, as shown by significant increase in wealth inequality during the pandemic, for example. At the same time, there are promising developments: the political representation of disadvantaged groups is steadily growing and technology has helped make forms of communication and information that were previously highly exclusive more accessible. In your view, are European societies becoming more or less equal?

Sara Matthieu: Up until the second half of the 2000s, we could have argued that being a member of the EU was beneficial for a population's wellbeing: leading to an increase in wealth for both member states and their citizens. But that is no longer a given. The problems became more severe after the Eurozone crisis, although not all countries nor all segments of society were hit in the same way. Today, 9 per cent of the workforce are working poor, and gender inequality has also increased. Globally, more than a quarter of the women who were part of the workforce prior to the pandemic were out of work by September 2021. Then there is the issue of health inequality. We have experienced budget cuts related to healthcare provisions at the time of the Eurozone crisis and, of course, the first victims of those budget cuts are always the most deprived – a situation made worse by the pandemic.

It is a grim outlook, but there are remedies. In the EU, the pillar of social rights could provide means to tackle inequalities around access to the labour market, fair working conditions, social protection, and social inclusion – but much more needs to be done. Policy must focus more on indirect measures, such as improving the living standards of the working poor, flexible working arrangements, housing benefits, upgrade workers' skills, access to quality childcare, and, of course, progressive taxation.

Philippe Pochet: I agree that the EU's track record is mixed. Despite some favourable developments on the European level, there is a visible reluctance to speak openly about inequality. Stakeholders talk about fairness and the poor, but when it comes to inequality, they are very cautious. European institutions are hesitant to address the issue directly. By not articulating the problems, we miss the opportunity to address the aspects of inequality

that are not only about the needs of the poor but the privileges of the rich. Talking about these privileges would lead to a completely different debate about progressive income tax income, wealth tax, and getting rid of extravagant salaries. While it is normal that a CEO doesn't earn the same salary as an average worker, earning 200 times what an ordinary employee earns is not acceptable. Our politicians need to be prepared to talk more openly about equality and make clear what forms of inequality our societies accept. Right now, it is not clear.

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Which EU policies on inequality are promising for the future?

Philippe Pochet: Up until the pandemic, most of the improvements at the European level were due to the measures of the European Central Bank to stimulate the economy, and the listing of tax havens by the Council of the European Union, rather than the activities of the European Commission. It's not enough but it is still good to see that some of the measures we have been discussing for decades are now, step by step, becoming mainstream – even if their implementation still has lots of loopholes. For me, the most important evolution in recent years has been that we can finally say in policy debates that entrepreneurs need to pay their fair share of taxes.

Sara Matthieu: I think you need to look at this issue from different perspectives. On the one hand, in the European Parliament, we are working to do more than simply make declarations about wanting to see an x per cent decrease in the number of people living in poverty. We need to actually introduce legislation that can provide solutions. The European Parliament's adoption of new rules on minimum wages is a huge step forward.

On the other hand, there are many tax issues to address. We need to move away from taxes on labour and focus on polluters, as well as on exorbitant incomes and wealth. Here, the lessons of the financial crisis have not yet been incorporated into our policies. Tax evasion, both by wealthy individuals and multinationals, is widespread. The introduction of a 15 per cent global minimum tax rate, as it was launched by the G20, is just a small step in the right direction.

Unfair tax systems are one of the main drivers of inequality and are very dangerous for our democracies. If nothing is done, people will lose confidence in the rule of law and the system's fairness. Every time we have a scandal like the Panama Papers investigation, we see small tweaks, but it is never enough. We need stricter rules, so that we have full transparency and tax authorities can take the necessary steps. Of course, it is easier said than done, as Europe still lacks competences on taxes. As long as the measures are still decided by member states, there will be a race to the bottom.

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Western governments froze the assets and bank accounts of Russian oligarchs after the invasion of Ukraine, but European billionaires can still avoid being taxed by moving their wealth to tax havens. Can the recent freezing of assets provide a precedent for Europe's own billionaires?

Sara Matthieu: This development shows indeed that the matter is just a question of political will. We need to close the loopholes and create transparency. That could really be a game-changer, to help people regain their trust in Europe and in their lawmakers.

Philippe Pochet: The example is somewhat misleading because the people whose assets were frozen are connected to a regime that was sanctioned for its aggression. We can criticise the rich in Europe but that does not mean that we should deal with them in the same way as sanctioned individuals. At the same time, more could be done. So far, governments have tried to incentivise tax evaders to keep their money in the country by lowering taxes. But that strategy clearly did not have the effect they were hoping for. The activities of the super-rich like Elon Musk were supposed to create value for the whole of society. But that again is complete nonsense. We need to change the discourse so that it seems natural that you pay your taxes while those who do not play according to the rules face penalties. A similar narrative change is needed around inheritance taxes, to prevent the build-up of inequality from one generation to the other.

The richest countries and their richest inhabitants are also the largest sources of emissions through travel, consumption habits, and diets. Would the simple redistribution of wealth from rich people to poor also be an effective climate policy?

Sara Matthieu: In a lot of EU member states, social protections for vulnerable groups are being weakened, so there is a moral argument for redistribution. But there is also a practical, environmental one. Addressing social inequalities will also address the issue of high-emitting rich people.

If you look at the most recent World Inequality Report, you can see that the poorest half of the population in rich countries have already reached the level of the 2030 emission reduction targets. Of course, that is not a huge surprise, as many poor people do not own cars. In the Brussels region, for instance, if you look at the 25 per cent of society with the lowest income, 70 per cent of them do not own a car. The trends are same in France, where only 2 per cent of the population took half of the total number of flights in the country. So those with the deepest pockets are indeed the ones with the biggest environmental impact.

Redistributing wealth would not only decrease the ecological footprint of the rich, but it would also enable those on low incomes living in poorly insulated houses to afford energy renovations, heat pumps, insulation, solar panels, and other important tools that they do not have access to right now.

Philippe Pochet: We also need to rethink the trickle-down model of the green economy. There is a widespread idea that creating a new electric car for the upper end of the market

will ultimately make the product accessible for other strata of society. The hope is that we end up with a “green Volkswagen” affordable for wider society. This model is not working and is creating even more polarisation. With the support of the Climate Foundation, we have published a study about the car industry. It shows that electric cars are produced only for the rich and that companies make even more profit with electric vehicles than they did with traditional cars.

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Between 2018 and 2019, huge movements in countries such as France and Chile protested against climate policies that were perceived as unjust. Many European countries also have strong climate-sceptic far-right movements. Are you concerned that regressive climate policies in the context of high inequality and rapidly rising prices could drive voters towards the far right?

Sara Matthieu: We are of course in the middle of a crisis and many mitigating measures have been targeted at poor households. In Belgium, we have extended the social tariffs for energy bills, and, thanks to the EU, we introduced massive support packages during the Covid-19 pandemic. But the problems can still trigger outrage amongst the most vulnerable or poorest parts of society. That is where we need a policy answer. In the case of the yellow vests, the protest was due to the people’s perception of fairness. These people were not against climate measures per se, but they felt measures were being taken that had an adverse effect on their quality of life – the fuel prices (which were still lower than they are today) were just one part of the equation, regressive policies on pensions and other issues also contributed to the problem.

This shows the importance of tackling inequality if we want to have support for climate measures at the same time. People need to feel protected and need to feel that the system is fair. There needs to be a policy in place that can actually change things. I have been negotiating the Social Climate Fund and the Emissions Trading System in the European Parliament. These are clear examples of deals whose fairness needs to be guaranteed, where industry actors should pay their fair share in line with the “polluters pay” principle, and where money should be used to help people out of energy poverty.

Energy prices are already through the roof. People are afraid that in the coming winter they may not be able to heat their homes or keep their houses cool during the next heat wave. If we introduced a carbon price on top of all that, without helping people out of this situation, they would rightly be angry. It is up to us to make sure that climate policies go hand in hand with reducing inequalities.

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Can the green transition be a way to make the European economy more equal?

Philippe Pochet: We are facing a huge economic and social transformation. To make it work, we have to create a common vision about the future of Europe – one that is both green and social. One of the tests will be whether we can rethink the internal market. The internal market has so far followed the so-called Alibaba model: low prices, no concern for the environment, and little concern for the consumer. Could we think of a new internal market that cares for the quality of the product? Can we better emphasise the importance of recycling and the circular economy? If you look at battery production, it is not the battery factory that will create most jobs but the recycling plant. The quality of the product and the quality of the work are key. Returning to the basic concept of the quality of work is easier when you have a good product, good working conditions, and respect for quality of life.

If we manage to build a new social contract around quality of life and wellbeing, then we can create something good for our societies. It could become the basis for a positive narrative in a completely transformed Europe.

Sara Matthieu: I completely agree. The quality of products and circular design are at the forefront of the [Sustainable Products Initiative](#). There is real potential there to forge a narrative that can change how the internal market works. Not only would it be crucial for the climate and the environmental impact of our economy, but it would also improve working conditions and would contribute to the creation of local jobs in Europe.

With today's dominant narratives that centre around the idea of the trickle-down green economy, many of us feel like we are just considered consumers or, even worse, wage slaves. I think if we were to go back to the success story of the social welfare state, we could infuse a new social contract between society, the economy, and our planet.

We cannot build our vision of the future on a growth-based deal, that is for sure. That model is wrecking the planet as well as increasing poverty. A new social contract could mean a circular economy, a four-day working week, fighting against tax havens, more income and wealth redistribution, a minimum wage, and a minimum income. It could be a broad agenda where people feel like they are able to change this system. Europe is already a very rich part of the world; we do not need a bigger pie; we just need to enable more people to have a bigger slice of the pie.



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