Dynamics of Inclusive Prosperity

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1. Preface

The plan laid out before you is the product of elaborate discussion within the scientific communities of Erasmus School of Law, Rotterdam School of Management and the Faculty of Philosophy. It was written as a grand narrative underpinning this Erasmus Initiative, outlining its main course and inspiring scientists to get involved. The text deliberately serves as a source for binding participants together and as a framework for underlying projects, yet not as a fixed and detailed project description. In this spirit, three overarching themes have been identified, which are expected to drive important societal changes and frictions in the coming 25 years. These themes deal with – broadly speaking – shifting responsibilities, disruptive innovations and financial and economic governance, seen from the perspective of their relation to safeguarding inclusive prosperity. The next phase of the Initiative will consist of breaking this framework down into smaller, clearly defined research projects, offering scientists room for different kinds of multidisciplinary research into specific questions under the aegis of the Initiative. This phase will start as soon as possible following the approval of this plan by the Executive Board.

This plan bears the fruit of extensive discussions held over the course of the past half year. Apart from the deans and the directors of research these discussions involved senior scientists from an array of (sub) disciplines within the three Faculties. (See p. 19 for an overview of participants.) Given the broad scope of the original theme (‘inclusive growth and prosperity’) and the novelty of setting up this Initiative, the deans felt it was necessary to invest substantially in common ground and mutual understanding about the aims and starting points of this Initiative, before moving on to describing its scientific details. Having done so, the framework presented is the result of a true, interdisciplinary collaboration, novel in its approach and content, and adding scientific value to its constitutive partners. The chosen approach allows to ask questions and to address topics of an inherently multi-faceted nature, which is difficult to achieve within the boundaries and money streams of one particular discipline.

In terms of implementing this plan, the recruitment and appointment of key researchers by the (current) steering group will start immediately following its approval. Upon appointment of staff concrete research foci and questions will be determined amidst the possible themes presented in chapter four. In the future, a group of senior researchers (affiliated to the leading Faculties in the Initiative) will be mandated by the supervisory board to jointly take strategic decisions concerning the Initiative, including inter alia the overall methodological approach, research pillars (subthemes), participating researchers, main valorisation activities and funding.
2. Introduction

Prosperity is a commonly valued good in society. In principle, it creates a stable and sustainable basis for societies, providing its citizens with social security, health care, education and opportunities for advancement. Corporations, entrepreneurs, citizens and governments, as the motors of economic activity, are the main producers of this prosperity. Yet, both in the West and on a global scale, the wealth that is being created by economic activity is unequally distributed and often comes with significant externalities for society that increase the costs for citizens and negatively affect their health and wellbeing. Social inequality and youth unemployment have been worsening in countries across the world, while on average women are still paid less than men for comparable work. Moreover, processes of creative destruction continuously change the patterns of generating prosperity and their accompanying forms of inclusion and exclusion. The main challenge society faces therefore is how to encourage and generate inclusive prosperity, against the backdrop of constantly evolving economies. Inclusive prosperity means in this sense the creation of welfare and economic development while in doing so preventing social and political exclusion and alienation, minimizing environmental degradation, and remedying social, political, and ethnic conflict. The initiation of the Sustainable Development Goals in September 2015 signals the importance of this agenda: the interrelatedness of the societal issues at stake, the importance of complementary action by governments, companies and communities, the relevance of positive frames and an proper understanding of the behavioral dynamics of transitions for instance due to so called ‘bystander’ or ‘tragedy of the commons’ effects.

This implies challenges for all actors concerned. Corporations and entrepreneurs need to form an understanding of how through responsible forms of business activity (including new forms of inclusive business orientations, stakeholder capitalism and social entrepreneurship) they can actively contribute to the health and sustainability of the societies in which they operate whilst as a base condition still be economically viable. This will involve the willingness and the courage to experiment with new ‘circular’, ‘inclusive’, ‘shared value’ - in short more sustainable - business models that can grow exponentially to shape new social and environmental value chains. There are great business opportunities in areas, like sustainability and responsible manufacturing, that are central to promoting inclusive prosperity, not only for start-ups and small enterprises but also for established global players. Government at different levels (national, European, international) similarly needs to (re)consider its complex role as regulator and stimulator of the economy and the market, with a view to the changing nature of inclusive prosperity and in the service of a democratically determined common good. Traditional ways of regulation will have to be reconsidered and innovated and new forms of government – governance interaction have to be developed. Civil society and informed citizens will likewise need to critically follow and assess both corporate practices and governmental interventions. Further, households need to realize the crucial role they can play in reshaping the economic landscape as consumers, investors and voters.

The aim of this initiative is to carefully analyze the dynamics of economic activity in terms of inclusive prosperity and the changing roles and (complementary) activities assumed by the different actors involved in it and to contribute to solutions to the societal dilemmas mentioned. Moreover, it includes the critical analysis of the notion of inclusive prosperity itself. Achieving this aim requires considered reflection and interrogation from multiple disciplinary angles, rather than relying on mono-disciplinary maxims or compartmentalized views.
To illustrate this guiding principle, one of the most prominent examples of the governance challenges posed by evolving economic systems is the sub-prime mortgage crisis that instigated the first of the recent set of financial crises. The financial innovation of bundling mortgages into higher-yielding paper bonds was based on an ultimately pernicious analogy of seeing “mortgage-backed securities as safe bonds”. As a creative entrepreneurial act, the new “product” developed a novel and lucrative market but one that was largely unregulated. Coupled with the mindless pursuit of profits by the financial sector, banks and investors stepped into the market, whilst the product ultimately proved to be like a Ponzi scheme devoid of any value. The tax payer in turn had to pick up the bill for this “financial innovation” and the economic mantras and greed that had fuelled it in the first place. The world is in fact still reeling from this financial crisis, with all its disruptive social and economic consequences.

As in this instance, the questions that need to be asked are not strictly economic ones, but involve a combination of business and management questions around entrepreneurial innovation and growth strategies, responsible business models and employment and the attitudes and behaviors of managers, investors and households; philosophical questions about how the complex whole of issues and dilemmas around inclusive prosperity affects our understanding of our self, our society, and our natural, technical and cultural environment; and legal ones around the codification, categorization, and steering of corporate, market and state practices, from a descriptive, normative and empirical perspective.

*The purpose of this Erasmus Initiative on Dynamics of Inclusive Prosperity is to advance this multidisciplinary agenda and offer research-led insights and solutions through action research, education and outreach activities. In doing so, it will aspire to become an internationally known center of expertise, to claim opinion leadership and to contribute scientifically to the cause of furthering inclusive prosperity around the world.*
3. Ambition

This is a proposal for a new Initiative for multi-disciplinary research on the broad theme of inclusive prosperity, defined as the equitable distribution of general welfare and life chances across individuals and groups within and across societies now and in the future. The initiative combines the expertise of the Erasmus School of Law, Rotterdam School of Management and the Faculty of Philosophy. The proposed initiative channels the existing expertise of the three partnering Faculties into ambitious multi-disciplinary research projects that lead to a step-change in academic understanding of the drivers and dynamics of inclusive prosperity as well as impact-driven contributions to societal debate, public policy formation and regulation.

The plans described in this proposal are restricted to the coming five years, based on the initial investments made by the Erasmus University Rotterdam. During that period the initiative will be managed as a multi-disciplinary programme of research and impact (valorisation) activities. In the first instance, this programme will build on and leverage current activities in research and education on the broader topic across the three partner institutions and will involve the initiation of a number of strategic project-based investments. These investments will involve projects where multidisciplinary expertise on the topic is lagging or can be further developed or enhanced, or where outreach activities can be tried and tested or scaled up to maximize their impact. Through this way of working, the aim is to ensure that the initiative will first of all be strongly rooted in existing areas of research and education at the three partner Faculties. Then, through further investments aimed at building multi-disciplinary capacity and expertise the foundations are laid for the programme to evolve into a distinct Centre of Expertise on the theme of inclusive prosperity. Once the programme has transitioned into a Centre of Expertise (within 3-4 years from now), the Centre aims to be known for its expertise and sound scientific advice so that amongst other things it can attract its own sources of funding for ongoing research, policy advice and other outreach activities.

The three participating Faculties bring together a large group of outstanding researchers who, it is anticipated, meet around common topic areas (such as macroeconomics and financial (market) regulation, the societal responsibility of private and public-sector organizations and the balancing of values in economic systems) related to the main theme. At present, researchers in each of the Faculties separately already research topics and have subject-specific expertise that is relevant to the broader theme. The aim of the Initiative is to leverage this expertise and channel it into ambitious multi-disciplinary projects that advance a distinct signature profile for the EUR around the broader theme. The underlying premise is, as mentioned, that conjoint, multi-disciplinary thinking around the theme of inclusive prosperity is ultimately better able to deliver the depth of insight and integrated solutions that the theme requires, compared to what any single discipline can provide.

Because of this shared ambition, the aim is for the Initiative to become a focal point of reference for researchers across the three Faculties; as a research initiative and signature EUR theme that individual researchers across subject areas and across levels of seniority identify with, and that they want to contribute to in their own ways through research and outreach activities. Such strong identification is likely to lead to additional research activity (under the “flag” of the Initiative or EUR more generally) that will build further capacity and strengthen the visibility of this signature theme of the EUR. The alignment of the Faculties with the broader theme will be fostered through an organization around broader inter-disciplinary topics or sub-themes that cut across the three constituent disciplines and outline potential avenues for joint research. These sub-themes will be described in more detail below. Besides an organization around inter-disciplinary sub-themes, the
continued involvement of researchers from the three Faculties will also be fostered through the appointment of a University-wide Chair on Inclusive Prosperity who will spearhead the Initiative and will promote it, both internally and externally.

The aim of the Initiative is to strive for innovative inter-disciplinary research that builds at the same time on disciplinary excellence and state-of-the-art research in each field. In this way the Initiative can foster interdisciplinary thought, whilst ensuring that members of the individual Faculties are able to meet the discipline-specific benchmarks for research and their Faculty’s criteria for promotion. To this end, the Initiative will develop specific policies and incentives in pursuit of the twin goals of inter-disciplinary breadth and discipline-specific depth. In addition, it is likely that the quality and impact of outreach activities will be enhanced through collaborations and partnerships with non-academic organizations, such as government organizations, think tanks and NGOs (e.g., ministries, OECD, UNDP etc.). Each of the Faculties already has such partnership ties with various organizations. Based on these contacts, the Initiative will identify the most relevant partnerships to facilitate collaboration and maximize its societal impact.
4. Research themes

In modern societies, economic activity is somewhat of a Janus-faced process. On the one hand, firms and entrepreneurs generate wealth, growth, and innovation as well as opportunities for social value creation. On the other hand, negative externalities such as worker exploitation, unhealthy and unsafe working conditions, environmental degradation, managerial transgressions and crises seem to be an almost routine aspect of much economic activity around the world. Governments at different levels (national, European, international) in turn have assumed important roles in mitigating these negative externalities by regulation and oversight. Yet, their ability to do so effectively has become much harder in recent years for a number of reasons. The transnational regulation of firms and entrepreneurs is first of all a significant challenge for states as well as formal and informal international law- and policy makers, with capital and labour easily flowing between states and thus being less easy to track and regulate. In addition, the emergence of new organizational forms and new forms of work and employment have also offered challenges for regulators, as new legal regimes matching such activities have to be constructed and codified. Both developments – the changing nature of organizations and work and the transnational character of economic activities – have thrown up significant challenges for states in terms of balancing growth and prosperity, and at the same time necessitate a reassessment of current mechanisms of regulation and oversight and call into question their ability to be the sole solution to today's challenges in limiting the social costs of economic activity. In fact, this challenge is clearly demonstrated in cases of corporate tax avoidance schemes (Apple, Starbucks) or in new start-ups (such as Uber or Airbnb) that operate in the cracks between different jurisdictions.

New organizational forms and new forms of work not only provide new forms of economic activity and of wealth accumulation but also generate social costs. For example, global production chains governed by international brands or leading retailers can either push their suppliers to comply with higher standards for sustainable production or cause competing governments in exporting countries to lower these standards in order to attract business. By the same token, the new start-ups in the sharing economy create innovation, jobs and profits, but also outsource or externalize transaction costs and instigate more flexible and precarious forms of labor that dismantle traditional labor markets and the traditional protection and rights of workers. And the changing nature of work through automation and robotization can increase productivity and improve working conditions, while at the same time they can bring on unemployment and put large classes of workers and professionals in the labour market out of work. Coupled with the fact that median real wages have been stagnant in developed economies since the 1980s, the impact of automation on both service and manufacturing jobs is currently generating deep anxiety about the future of work.

This transformation of modern economies is also accompanied by new modes of government-governance dynamics. For example, since the 1990s, states and NGOs have started to shift much of their resources and energies towards private forms of regulation, disenfranchised with international law's inability to set and enforce strong standards to control societal problems caused by a globalizing economy. For example, in the sharing economy, operators such as Uber and Airbnb invoke new categories of “independent workers” to avoid being classed as a traditional corporation with employers and to suggest that they offer a valuable service to citizens in society. In other words, public and private actors are assuming new roles and responsibilities in governing economic activities including addressing any potential negative externalities for third parties. States are no longer the sole or even ultimate regulating body of the economy, but have become actors in more encompassing governance regimes that, as mentioned, often stretch across borders and inter alia also include informal policy makers (e.g. the G20). This means in turn that the challenge of balancing
the creation of economic wealth and prosperity with other values such as equality, stability, sustainability and democratic legitimacy, has not only become more complex but is also a persistent one for societies – forming the leitmotiv for this Initiative.

This overall challenge involves balancing an intricate dynamic of forces at multiple levels of analysis (i.e., individual, organization and society), in which the potentials and responsibilities of the actors involved are becoming more dynamic and multidimensional. Firms and entrepreneurs have a social responsibility as well as regulatory potential; and similarly governments act as a co-creator of the economy. Further, the increasingly complex and global nature of global business activity call for a greater involvement by other stakeholders in societies, such as investors, consumers and civil society. Hence, beyond the dichotomies of innovative corporation versus regulatory government, or responsible government versus licentious corporation, the overall aim of the Initiative is to investigate the complex and shifting interaction through which different sides – firms and entrepreneurs, governments, investors, households and civil society – contribute to the creation of economic wealth and social prosperity on the one hand, and ways in which the negative externalities implied in business practices can be regulated and mitigated on the other. This mutual involvement, and the balancing of the Janus-faced character of economic activity, is crucial for the establishment of inclusive prosperity. In and across societies, we generally need to find ways to continue producing prosperity, while minimizing its negative externalities, and mitigating the unequal distribution of wealth. The overall societal aim of this Initiative therefore, is an inclusive prosperity that is compatible with equality, stability, sustainability and participation, that is opposed to exploitation, unhealthy and unsafe working conditions, and environmental degradation, and that aims to expand the opportunities for advancement of those employed, or employable.

Based on these considerations, the broader theme of inclusive prosperity can be broken down into three core sub-themes that together provide a specific and multi-disciplinary research agenda that will help develop the signature profile of the EUR in this area. These themes have been identified as central to the broader topic and as common points of reference across the three collaborating Faculties. These themes should however be read as indicative of potential areas of research, rather than as an exhaustive summary of the topic and of all the mono- and inter-disciplinary research that is currently already carried out on the broader subject and at each of the participating Faculties. In addition, the Initiative encourages fundamental, theoretical explorations of concepts and principles associated with inclusive prosperity besides the more applied and empirical focus that is evident in the three listed themes.

**Theme 1: Public and Private Responsibilities and Potentials to Foster Inclusive Prosperity**

A first theme for research is the question of how the dynamics of creating and ensuring inclusive prosperity in society is affected by the shifting boundaries between public and private regulation. During the last few decades, in order to address the negative externalities associated with economic activity, new forms of governance have evolved wherein private actors rather than public authorities take action, set standards, assess impact, and monitor and oversee compliance. Another form of governance and value creation have become ‘partnerships’ and ‘multiple-stakeholder’ initiatives in which actors from all spheres of society have started to work together, share risk and invest in complementary capabilities in order to address in particular so-called ‘wicked problems’ in which it is difficult to define responsibilities. In this context, firms have also started to take initiatives for self-regulation, implement internal compliance and ethics programs, buyers set standards in the contracts of suppliers, banks are setting standards for their clients and investees, pension funds and
other investors are developing standards for their investments and certifying bodies, which are often accredited, audit firms on private standards. Governments are exploring ways to anticipate self-regulation and assess the quality of governance as an instrument for the assurance of societal interests. Governments, NGOs and social movements are then often actively involved as experts, partners and supporters of these certification and accreditation regimes. Moreover, in many instances there exists extensive overlap and interplay between public and private forms of regulation. Firms invoke national or international laws in business contracts, international regulatory bodies use the expertise and experience that have been generated in setting up private initiatives and states use certification as a mandatory requirement for market entrance. This means that different kinds of regulatory governance initiatives have arisen, ranging from purely private to hybrid forms of public and private regulation and that the boundaries between public and private forms of regulation are shifting. However, this shift towards private regulation is by no means a universal, irreversible, and consensual process. For example, governments in emerging economies such as Indonesia, China, and Argentina have recently started to reclaim public authority in certification schemes for forestry management and round tables for sustainable palm oil production which they view as invading their sovereignty. This implies that the shift from public to private forms of regulation may be reversed in certain situations; a trend that is perhaps sped up by increasing resistance against a further liberalization of international trade.

The dynamic of the blurring of the boundaries between public and private regulation raises philosophical, legal, behavioural and management questions. In particular, this first theme gives rise to three clusters of research topics and research questions.

- A first cluster involves the design and implementation of regulatory governance initiatives and the logics and assumptions that underlie these initiatives. Public and private regulation are based on different logics. These logics may be compatible or incompatible, may induce collaboration, competition or may result in chaos. Collaborative efforts may be planned or arise spontaneously or opportunistically. Initiatives may result in effective collaboration and mutual learning or they may falter or seize to exist altogether. Power balances may shift in one or the other direction, resulting in a situation where public or private regulators are captured by business interests, or in reverse capture where public regulatory agencies impose their own goals on private regulators. As regards the logics of public and private regulation, a number of questions can be raised. Can a logic of profit seeking be reconciled with societally responsible behaviour? Do regulatory governance initiatives result in ‘better’ or ‘smarter regulation’ than do command and control regulation by public authorities? If so, under what conditions might these positive results occur? Or do regulatory governance regimes simply show capitalism’s ability to transform critique into a commercial and managerial asset, and ultimately show capitalism’s ability to constantly transform not only the means and relations of production, but also the means and relations of political authority?

At the level of policy instruments there exists a huge variety in internal compliance programs, contracts, certificates, and forms of co- or meta-regulation. Important questions are how these policy instruments are designed and implemented and how this affects their impact, as decoupling of policy and practice may easily occur. Related questions pertain to the assumptions that underlie policy theories and to the extent to which these assumptions are (un)tenable. The importance of this type of research can be illustrated based on the influential global supply chain management theory. This theory assumes that multinational retailers and international brands have control over their supply chains because of power asymmetries; that information derived from factory audits is reliable and instrumental; and that incentives deter non-compliance. These assumptions are falsified by empirical research: suppliers or intermediaries are often much more powerful than assumed; audits often yield superficial and unreliable information that is of limited value to ameliorate compliance, and; suppliers are often not rewarded for
compliance or are not deterred by the warning that contracts will be ended in case they do not comply with private standards. This example illustrates the value of unraveling the assumptions that underlie policy ideas related to the governance literature such as responsive regulation, risk-based regulation and governmentalities, and to test the tenability of these assumptions by way of rigorous empirical research.

- The second cluster pertains to the roles different actors assume in (regulatory) governance initiatives. State actors no longer limit their activities to regulation, inspection and enforcement, but also assume active roles in regulatory governance regimes by providing financial incentives, facilitating collaboration, overseeing public goals, participating as clients or supporting initiatives by procurement policies and overseeing systems of self-regulation. Private actors assume similar roles traditionally restricted to public regulatory bodies albeit without the same authority to penalize. Civil society also performs different roles in (regulatory) governance regimes. Through different dynamics citizen-consumers and social movements contribute to reforming the economy by way of boycotts, selective shopping (e.g., buying fair, sustainable, or biological goods) or publicly mobilizing themselves against firms (e.g., social media campaigns aimed at companies exploiting regulatory loopholes to avoid paying taxes). Investors such as pension funds are increasingly active in shaping corporate decision making, for example through “Environmental, Social and Governance” (ESG) investing. And just like firms’ responses to social pressure are strategic and selective, social movements also strategically select their targets for boycotts or shareholder activism. In dealing with businesses, NGOs face the dilemma of how to maintain their independence while at the same time depending on information from and collaboration with the firms they monitor. They also face the dilemma of representing local initiatives, while at the same time playing a role at the national and global level. Related to the second cluster are questions such as what roles do state, market and civil society actors assume in regulatory governance initiatives? What dilemmas do these different actors face and how do they deal with these dilemmas? Does the privatization of regulation automatically imply a ‘hollowing out’ of the state or rather a transformation of its role? How do public and private forms of governance interact and evolve?

- The third cluster concerns the dynamics of regulatory governance. Developments in multi-actor regulation and monitoring are recent and follow each other in rapid succession. For example, transnational certification schemes in forestry, fishery and apparel industry have originated not earlier than the beginning of the 1990s. These certification systems were partly a response to social movement pressures exerted on western companies, which created a demand for some way of evaluating companies’ claims about their social and environmental impacts. Also, as governmental and intergovernmental options for addressing labour and environmental issues were blocked or failed, states, NGOs and social movement groups put more energy and resources into nascent certification and monitoring efforts. It did not take long before competing transnational schemes diffused. The latest developments are that states in emerging economies are likely to use their power to reclaim their regulatory authority from private standard setting bodies by means of experimental mandatory public governance. At firm level developments are also in full swing. There has been shifts away from first party regulation (internal compliance programs) to second (supply chain or sector regulation) and then third party private regulation (independent certification and accreditation bodies). One reason to move away from first and second party private regulation is to converge standards and to make them convertible so that suppliers do not have to comply to different sets of private standards. Another reason for this move has to do with legitimacy. Firms attempt to enhance the credibility of certification schemes and to distinguish between good and bad labels by making private regulation independent of producers and put it in the hands of third parties. However, the public campaigns to increase the market share of competing standards and the accusations of
“greenwashing” place all sustainability standards under scrutiny and question their viability as instruments that can deliver sustainability outcomes. It is in this setting that institutional entrepreneurs such as the International Social and Environmental Accreditation and Labelling (ISEAL) were founded. ISEAL seeks to quell some of this controversy within the field to increase the credibility and expand the influence of sustainability standards by developing meta-codes on setting standards, measuring impacts, and overseeing assurance (certification and accreditation). On the one hand, ISEAL clearly demarcates the boundaries of the field and garners support from outside actors. On the other hand, they risk disentangling their core members by focusing on procedures and technicalities rather than on the substance of sustainability standards. The dynamics of regulatory governance regimes at the transnational and firm level, are still ill understood and research is urgently needed to understand ongoing developments.

The questions related to the three clusters pertain to the individual, corporate and societal levels and can be approached from each level or from multiple levels of analysis simultaneously. This theme invites scholars from the EUR to study how ethics and ethical behaviours are incorporated inside firms, how ethical values and norms are embedded in a wider regulatory and societal context and how the interplay of actors and actions in corporate ethics evolves and has a net effect on the economic wealth and wellbeing of stakeholders in society. Whilst these questions can be approached at a singular level of analysis and from the perspective of a single discipline (business, philosophy or law), the Initiative encourages in particular multi-disciplinary investigations that offer novel and deeper theoretical insights and are better able to make a considered link to the broader theme of inclusive prosperity.

Theme 2: The impact of disruptive innovation on inclusive prosperity

A second theme for research is the question of how the dynamics of creating and ensuring inclusive prosperity in society is affected by disruptive innovation: the transformation of a market or sector through new business models or innovative technologies that disrupt and defy established corporate practices and work arrangements, as well as existing institutional arrangements. This theme provides the opportunity to connect a wide variety of research on corporate values and practices (including the automation and robotization of work) to a series of legal interests in forms of national and international market regulation and public accountability, as well as to a philosophical interest in how new technologies mediate our self-understanding both as customers, in relation to corporations and the market, and as citizens, in relation to civil society and to the state.

Disruptive innovation constitutes an important challenge for theory and practice, for research as well as education, in the domain of this research initiative. First, its impact as exemplified by e.g. Uber and Airbnb, is a topic of intense academic and social debate and concern; its societal relevance is thus very high. Second, the principle of disruption poses a serious challenge to such goals as stability and sustainability; it puts the idea of inclusive prosperity to the test, as was sufficiently shown by the 2008 financial crises. Third, it connects to the experience that corporate business models and technologies are indeed becoming more disruptive and require novel and adequate regulatory mechanisms, as dramatically exemplified by the financial crisis of 2008, which to no small extent can be attributed to banks exercising disruptive innovation through risky new financial products.
This second theme gives rise to three clusters of research topics and research questions.

- A cluster of theoretical questions about what constitutes disruptive innovation, and how broadly this concept can or should be understood. From its restricted meaning as a new business model, first propagated in the 1990s, we can fruitfully extend it to include many ways in which the *modus operandi* of corporations has disruptive innovative effects, on the industry or on society. In addition, the general connections between the theory or model of disruptive innovation and the more general idea of capitalism as ‘creative destruction’ – an inevitable dialectic in which destruction and creation or innovation are mutually involved – constitute an important area of theoretical investigation. On the same basis, theoretical and empirical questions can be posed as to the relation between disruptive innovation and recent developments in economics, technology, communication, and science. To what extent does the model of disruptive innovation reflect such developments? And, perhaps even more importantly, does disruptive innovation widen rifts in society, thereby threatening inclusivity, or can it also contribute to a moral equal and sustainable society? Under which economic, political, and cultural conditions can this be the case?

- The second cluster concerns questions about regulation. To what kind of dynamics do (innovative) disruption and regulation give rise? How can these dynamics be understood? And how can these dynamics be influenced so as to best balance the positive and negative effects of disruptive innovation? The broader question can perhaps be most fruitfully approached by distinguishing between different kinds of dynamics that manifest themselves in relation to innovative disruption and the forms of regulation it entails. As a guide, we identify the following dynamics as playing an important role within the purview of the Initiative: corporate dynamics, dynamics of financialization, social dynamics, legal dynamics, regulation and compliance dynamics, and dynamics of informatization and communication. The Initiative aims to study these dynamics themselves, as well as possible relations and interactions between them. Possible shifts that could be the subject of study are the way in which companies in the sharing economy frame themselves as intermediaries or ‘access providers’, rather than as traditional producers and employers, and how as in the case of Airbnb they instigate or affirm a trend of marketizing and financializing the private domain of citizens. These shifts necessitate a whole series of changes and innovations in legalization, including in employment, tax and private law to ensure that the gains of entrepreneurial activities are balanced against the greater good. They also raise philosophical questions on the relation between the public and private domains, on the consequences of disruptive innovation for privacy and security (hacking, profiling), and on the role that technologies play at the interface of commercial, public and private practices.

- A third and final cluster of research involves studies of concentrated areas of disruptive innovation, including financial innovations, the automation and robotization of work, the marketization of the private and public sphere, and the impact of informatization and communication technologies. For example, a major question under this heading is whether the robotization of work will lead to significant changes in labour markets – potentially even putting entire classes of workers out of a job – and how societies can best prepare themselves for such innovations to ensure employment and opportunities for their citizens. Are these disruptive effects on the labour market concentrated in certain age groups and/or disproportionally affecting male or female workers? And, if so, which executable government policies could alleviate these effects? Another major question concerns the ambiguity of the ‘sharing economy’, which problematically combines the values of sharing and sociality with the financialization of citizens’ private life. A third issue is constituted by the far-reaching implications of the movement from grey to green technologies, implying the
development of more ecologically responsible kinds of technology while simultaneously ‘investing’ the biological world with technological and informatizational logics (e.g. genetic engineering, biotechnology, and biopolitics).

The theme of disruptive innovation, broadly conceived, is one that has significant theoretical and societal relevance for the Initiative. It lends itself to multi-disciplinary investigations, where insights from the business side are joined with philosophical interrogations and explorations of legal ramifications. As with the previous theme, disruptive innovations can be studied from a singular perspective; the Initiative however encourages multi-disciplinary and theoretically generative approaches to this sub-theme, rather than the primarily mono-disciplinary, mainstream approaches that currently exist.

**Theme 3: The role of finance as a force in generating inclusive prosperity**

This final theme concerns the broad question of how the financial system (that is, financial markets, banks and institutional investors such as pension funds) can best be shaped and regulated in order to facilitate an inclusive economy that supports prosperity. The theme builds around the idea that inclusion is the key to rebalance a system where poverty stems from imbalances such as market failures (e.g. financial instability), policy failures (e.g. World Bank conditionality), and income and wealth inequality (both within developed countries and between the developed and the developing parts of the world).

This theme is articulated around four main clusters:

- **Cluster 1: The governance of finance**
  Banks and financial markets are an important interface between inclusiveness and economic growth. Financial sector malfunctioning does not only deprive individuals of inclusion opportunities, but also can lead to economic depression and unemployment due to systemic crises. There is a trade-off between financial innovation, on the one hand, and financial instability, on the other. Financial regulation and supervision are supposed to cope with this trade-off, but have proved less than adequate in the recent and more distant past. One problem in the recent economic crises, most prominently stemming from financial crises, is that financial regulation relied on risk models which turned out to be unreliable (for instance, the Value at Risk model). While the forthcoming improvement of risk models may be a goal worth pursuing, this is unlikely to prevent the reoccurrence of financial crises. This is the case as, on the one hand, the implementation of regulation may become decoupled from its policy objectives (e.g. for incentive reasons), and as, on the other hand, our models of the world, however sophisticated, may be imperfect because of the complexity of the financial system and the uncertainty of the future. For these reasons, financial regulation needs adaptation and smarter forms of governance, in order to identify and cope with risks, blind spots and any eventualities (e.g., crises) when they materialize. Examples of institutions that, in order to cope with financial instability, require discretion as well as rules constraining it include private banks, national and supranational central banks, and international organizations such as the International Monetary Fund. Moreover, given the inherent limitations of financial regulation and supervision, more attention is needed for the roles of other stakeholders (such as investors and households, but also informal international policy makers, such as the G20) to shape the role of finance in generating inclusive prosperity. The open questions that the project will seek to answer include:
What regulatory regimes support the efficient governance of the above-mentioned institutions?

What goals other than economic efficiency should these institutions be made accountable for? And how can these goals be measured? Who is to choose which institution is responsible for which goal? What must accountability mechanisms consist of?

What if there is tension between economic efficiency and other goals? In the past decades, companies in many Western countries have increasingly moved towards the shareholder value paradigm, in which decisions are based on quantitative estimates of their effects on shareholder value (e.g. the “net present value” decision rule). How can and should this paradigm be augmented to include broader measures of social and environmental value or damage? Should companies maximize shareholder value subject to a cap on the social and environmental costs of their activities? Or should they maximize social and environmental value subject to a minimum (fair) return on capital? And how can the social and environmental consequences of corporate actions be measured?

What is the role of institutional investors such as pension funds, but also of individual investors and savers (households) in affecting the flow of capital to companies and entrepreneurs through financial markets and banks? Do they have the mandate and the ability to influence corporate decision making? And does this come at the expense of financial performance?

How can the pension system in various countries be reshaped to ensure a fair distribution of economic prosperity across generations?

Cluster 2: The opportunities and perils of financial innovation

The past few decades have seen a myriad of financial innovations, ranging from new securities, computerized (algorithmic or high-frequency) trading, sophisticated risk management models, micro-finance, crowdfunding and blockchains or distributed ledgers (such as the digital currency bitcoin). Some of these innovations are viewed as potential threats to the stability and the inclusiveness of the financial and economic environment, while others may bear promise as potential ways to alleviate instability and inequality. For example, the financial crisis has exemplified that the advanced risk management models mentioned above have been part of the problem rather than its solution by focusing on the stability of individual banks rather than on systemic risks. Similarly, the computerization of markets (so-called high frequency trading) and the replacement of the traditional broker floor with electronic trading raises questions about its potential abuses and misuses. On the other hand, micro-finance is viewed by many as an important mechanism to allow broader participation in the economic system even by the poorest households. And new securities (e.g. weather derivatives) as well as new financial markets (e.g. for trading carbon emissions) may help companies and societies deal with climate risks. Research in finance has started to explore the opportunities and perils of all of these forms of financial innovation, yet there is ample space to explore in a more multi-disciplinary manner how financial technology governs market behaviour and can be used to promote more equitable outcomes that support the economy in its functioning.

What role do policy instruments and technology play in the functioning of financial markets, and how do they shape actors’ behaviour as well as be shaped by them?

To what extent does the computerization of markets outstrip the cognitive abilities of human agents to keep track and participate in such markets?

How can “climate finance” help to reduce global climate costs and risks?
Can new financial technologies ("fintech") such as crowdfunding and blockchains contribute to a more inclusive financial system that allows for broader sharing of economic prosperity?

- How can “access to finance” (that is, the access of even the poorest households to basic financial services such as savings accounts and loans) be improved in less-developed countries? What is the optimal role of micro-finance in supporting inclusive prosperity?

- **Cluster 3: The behaviour of financial actors**
  
  A further topic involves the market actors and other agents in the financial system, their motives and behaviours. The most recent financial crises (e.g., LIBOR scandal, sub-prime mortgage crisis, European sovereign debt crisis) highlight the limits of governing behaviour purely on the basis of economic incentives. Similarly models of economics and finance that rest on such assumptions, or slight modifications of them (such as in behavioural finance or behavioural economics) fall short of fully capturing and explaining the (un)ethical behaviour of bankers, traders and others in the financial system. There is accordingly a significant opportunity for multi-disciplinary research to address this area, as highlighted by the ethnographies of bankers by Gillian Tett and Joris Luyendijk (two journalists) and recent review essays indicating the absence of management and philosophical (i.e., in terms of ethics and reasoning) analyses of the human behaviour leading to the string of recent financial crises. Furthermore, as governments around the globe are withdrawing from areas such as education and pensions, households need to increasingly rely on themselves for making far-reaching financial decisions. For example, in many countries students need to take out large student loans and government support for higher education is waning, and pensioners are expected to provide for a greater deal of their retirement funding through private savings. Accordingly, we see this as an important topic for research, with the following questions featuring as a rough guide:

  - What accounts and models of human behaviour best describe the motives and actions of financial agents, including the possibility of unethical behaviour? And based on such understandings, how can regulation and other forms of governance be adapted to accommodate such behavioural tendencies?
  
  - How do individuals make financial decisions? How should companies and governments provide them with the relevant information as inputs for these decisions in a form that allows individuals to process this information? How can financial literacy be improved? How can "nudging" techniques be implemented to encourage individuals to make better financial decisions?

- **Cluster 4: The global institutions of finance**

  At the legal and institutional level, the questions of what it entails to make the institutions of economic regulation more inclusive has been only marginally addressed. Institutions of economic governance include organizations regulating International Trade, Investment and Regulatory Cooperation. The classic examples are long-established organizations, such as the World Trade Organizations (WTO) and International Financial Institutions (IFIs), such as the World Bank and International Monetary Fund (IMF), national and supranational central banks, as well as the dense net of Bilateral and Regional Investment Agreements and more informal networks, such as the G20, the Financial Stability Board and the Basel Committee. The European Union, in addition to increasingly centralising the governance of the internal financial market in the EU (Banking Union), is a key player in these regimes and is also actively engaged in setting up new mega-regional regimes, such as the recently signed CETA. These regimes have a bearing on corporate conduct and on the relationships of corporate organizations with other economic and non-economic stakeholders. Will regimes, like CETA,
make companies more transactional and short-term in focus as opposed to more long-term and relational towards all its stakeholders? Will it, in other words, offer a further stimulus towards purpose-driven and societally focused corporate conduct, or herald a turn back to a more neo-liberal and strict economic logic in the Netherlands, Western Europe and beyond? The leading question of this topic is how global and European economic institutions can be designed so as to stimulate inclusive prosperity? This overarching question can in turn be translated into a number of more specific research questions:

- How is inclusion triggered / when is inclusion needed?
- How participatory should a regime be to be considered inclusive?
- What are the limits of participation?
- Is transparency (and to what degree), necessary and sufficient?
- Can accountability mechanisms be considered as proxies to strengthen inclusion?
- Is constitutionalism a strategy for inclusion (of different values)?

Importantly, and as with the previous two themes, the Initiative encourages multi-disciplinary investigations into the broader topic of financial regulation. As such, research projects that are framed and designed from primarily a disciplinary angle (i.e., law or finance) fall in most instances short of the Initiative's aspirations and the pledged ambitions. It is also more likely that such projects would then speak to more discipline specific questions and concerns than the broader thrust that is aimed for here of looking at how financial regulation fosters or hinders inclusive prosperity.
5. Other activities

5.1 Education

In addition to the research activities broadly sketched in the previous section, the participating Faculties will explore opportunities for collaboration along the lines of the themes of the Initiative. In existing programmes this collaboration will take place mainly by means of performing guest lectures on overlapping themes, reciprocally between the Faculties. As far as novel programmes are concerned, the first objective of the Initiative is to design a cross-faculty minor on the subject of ‘the dynamics of inclusive prosperity’, possibly for the academic year ‘18/’19. This minor programme will be set up as a broad, interfaculty minor, which explicitly targets students from Rotterdam as well as Delft and Leiden Universities. If possible, the programme will be developed in such a way that it can be expanded with 5 or 10 additional EC, according to the new EUR-policy on electives. The programme will be designed as to be strongly appealing to students (in for example the natural- or technical sciences) who want to learn more about the organisational-, management-, or regulatory aspects of inclusive and sustainable development. Furthermore, the possibility for introducing this theme in existing honours programmes and/or devising a new cross-faculty honours programme, specifically geared towards addressing the challenge of creating inclusive prosperity, is examined.

Currently, already a number of both minor- and master programmes address topics related to the Initiative, proving that the Initiative has a solid base not only in research, but also in education. At ESL these are the Master programmes Commercial and Company Law, Financieel Recht, International and European Law and Ondernemingsrecht. At Philosophy this is the Master track Philosophy, Politics, Economics. At RSM it concerns the Master programmes Finance & Investments, Global Business & Sustainability, Strategic Entrepreneurship and Management of Innovation. Next to that, there is a range of minors on offer closely linked to the themes of the Initiative. ESL offers The political economy of European integration, Onderneming en financiële markt, De wet en de technische innovatie and Mensenrechten in een pluriforme samenleving. RSM offers Leadership in organizations, The moral limits of markets, Crisis en schandalen and Money and banking.

5.2 Knowledge dissemination

The Initiative comprises challenges that are high on the agenda of politics, the media and the broader audience in general. As we create new avenues for research, especially by stimulating multidisciplinary approaches and cross-sectoral collaboration, we will pro-actively share gained insights and methods with (non) academic stakeholders, ranging from policy makers to multinational companies and to the public. Concrete activities that will be deployed with regard to generating impact are:

- Maintaining a dedicated website that clearly positions the Initiative as a centre of expertise in this field of inquiry, presenting position/working papers, a regular blog, publishing columns and sharing research results; thus claiming ‘opinion leadership’ for the EUR in this area;
- Holding a biannual conference “Dynamics of Inclusive Prosperity”, bringing together leading scientists and other high-profile public figures in this field from around the world;
- Organising public lectures by Initiative staff on issues related to inclusive prosperity;
• Informing public opinion by means of media appearances and popular publications;
• Developing a network of external (public and private) partners who are willing to collaborate on projects and/or sponsor new research (partly by way of partnering in funding applications);

5.3 Collaboration & funding

This Initiative is dedicated to furthering scientific understanding of society and to addressing societal challenges. It goes without saying that scientific staff will be encouraged to look for external collaborations and funding opportunities, but their academic careers will not be made dependent on its success. Furthermore, the Initiative operates in a field that is under increasing societal and political attention: themes like inclusiveness, equality and the understanding and managing of crises appear on every (inter)national research agenda and will only gain prominence. This Initiative therefore lends itself extremely well for collaboration with governments, NGO’s and private companies operating in the field of creating (more) inclusive prosperity. At ESL and RSM a lot of research already is done in collaboration with such organs. Also, as the public interest in problems of exclusion (e.g. refugee crisis and migration constraints) and (non) sustainable ways of living (e.g. climate change and energy politics) surges, this trend is very likely to advance the particular strain of research as proposed by this Initiative, for example in the form of private endowments.

Besides this, we witness a growing need for social-scientific research in these areas, examples of which can be found abundantly in the European Commission’s research agenda, the Dutch National Science Agenda and the UN’s Sustainable Development Goals (See Appendix for an overview of links to the National Science Agenda). Similarly, ample opportunity presents itself to fund projects within the Digital Agenda by the VSNU, for example by doing research into the legal-, economic- and social implications of disruptive technologies, a subject that is already being studies by prominent professors from ESL and Philosophy. Scientists involved in the Initiative will be urged to write proposals in these areas, particularly in cross-faculty consortia, when NWO publishes calls on these themes.

Likewise, the Initiative will actively scout academic partner institutions who address similar kind of issues to team up with and seek the exchange of staff, such as the Science Policy Research Unit at the University of Sussex, which prominently entertains a research programme into Economics and Policy for Sustainable and Inclusive Growth or The Institute for New Economic Thinking at Oxford University. As this Initiative approaches problems of inclusive prosperity mainly from a management- or legal perspective, with a strong focus on (disruptive) innovation, this creates a high degree of complementarity to these other institutions, characterised by a predominant focus on economics and development studies. Combining these perspectives should make cooperation very appealing to European funding agencies. The fact that the European Commission recently put extra attention to inclusive growth and the importance of innovation therein, amplifies the subject’s central place in (future) European programmes. In addition to funding applications, will an active strategy of influencing these programmes be exerted, in particular anticipating Framework Programme 9. To meet that end the Initiative will collaborate with the EUR’s liaison officer and it will assure physical presence at for example workshops, round tables, presentations and consultation meetings. The latter will be one of the principal tasks of the Initiative’s figurehead, its scientific director.