

Proposals for Reforming Capitalism

Raúl González, S.J.

Giraud, Gaël; Renouard, Cécile (eds.): *20 Propositions pour réformer le capitalisme*. Flammarion: Paris, 2009. 375 pp.¹

This is what might be called "a French Catholic generation's book on the economy". Its authors are academics who are also executives and analysts active in some of the most relevant battlefields of contemporary economic theory and practice: finance, risk assessment, game theory, non-linear models and ethics. All these fields came into being between the mid-'50s and the beginning of the '70s, a fifteen-year period that in sociology would constitute a generation. Three of the authors are Catholic religious: the two coordinators of the volume (a Jesuit and an Assumptionist sister) and one of the collaborators (a Xaverian sister). The rest are family men and women with an impressive range of professions, working in education, financial institutions, or business.

The book consists of twenty chapters each of which argues and defends a proposal concerning the need for reorganization of globalised capitalism. A large number of these proposals treat of financial markets, business practices, and the public policies related to these — in effect, they go right to the "heart" of the global economy. When finances are in a crisis of massive proportions, then the resulting threat to the system is not just sectorial, but total. Other proposals address more general aspects of contemporary capitalism, such as the social responsibility of business, the internalization of all costs, salaries, taxation and its possible "globalization," social integration, and environmental safeguards.

The book is conceived in such a way that questions of principle are left in the background: this allows problems to be analyzed with technical precision and highly concrete proposals to be made, some of which even touch on the institutional or societal mechanisms pertinent to each case. With such an inclination toward concrete proposals, the book provides good material for discussing what might be most effective and practicable in the present global context. This book is not a doctrinal discourse. The elements of principle, while certainly a component of a modern-day Catholic vision of the economy, are to be sought here in the foundations and sensibilities that undergird the analysis and provide it with inspiration and perspective, but without interfering with the technical discussion. In this sense, the book sets a new style for Christian participation in the economic debate.

The 20 proposals are addressed to persons who already know something about the contemporary economy. A glossary at the end of the volume helps the non-specialist reader to understand the technical terms used; in most of the chapters only the most indispensable of these terms are used. Nevertheless, a minimal understanding of the mechanisms of international finance and commerce are necessary to follow the argument in many of the chapters, and familiarity with the language of neoclassical microeconomics and with the criticism of that theory helps in reading other chapters. This book is not written in popular language, but is oriented to analysts, commentators, and decision-makers. Nevertheless, it offers many points that would make interesting discussion for theologians, philosophers and social scientists.

The common starting point of the authors as spelt out in the introduction is the recognition of the inadequacy of business ethics, understood as the individual commitment of the agents to abide by the established rules of the game in order to keep the global economy at reasonable levels of stability, efficiency, and justice. The current crisis shows that the key to the sustainability of the global economic system needs to be sought in the reform of those rules of the game. It is simply impossible to trust in the spontaneous self-organization of the economic system, given the presence of massive externalities, great asymmetries of information, and strong positions of market power and their ability to influence political power. All those factors reveal the enormous distance that exists between the truly relevant markets (the financial included) and what is considered the ideal model of perfect competition.

In the first chapter of the book the diagnosis of "inadequacy" is applied to the ability of businesses to commit themselves voluntarily to social and environmental objectives not subject to regulation — what is usually understood by the concept of "social responsibility of business". The last decade gives very little evidence of any progress in the willingness of businesses to internalize environmental and social costs, whether expected or not, as undesirable consequences of their activity; and such progress as there is takes the form of rhetoric and image rather than effective results. As a consequence, the harmonization and sustainability of development is not something that can be entrusted to the voluntary commitment of businesses.

For that reason the book's 20 proposals tend to combine the "carrot" (incitement or soft law) with the "stick" (constriction or hard law) in proportions that are more favourable to the latter than is usual in the prevailing discourse of the business media concerned with these matters. Many of the proposals include the idea of greater regulation of economic activity — transnational activity generally and financial activity in particular — to a point that deeply affects the basic concepts of business and management and the relation of these to society. Business is understood directly in terms of its social responsibility, instead of social responsibility's being considered merely a desirable complement of other business functions.

The new importance granted to regulation in this book does not mean that it ignores the need for business's commitment to viable plans for the reform of capitalism. Rather, it simply stresses that such commitment requires the additional participation of both the powers-that-be and public opinion, so that those who undertake the reform do not suffer competitive disadvantage. The importance of this concept will not escape the reader: if a different kind of business is desired, one that is both economically profitable and socially and environmentally responsible, then that will be not the task of just corporate shareholders or management, but will require active commitment on the part of the whole society, whether organized through the state or spontaneously decentralized through the markets.

As the authors are well aware, the emphasis on regulation transfers the problem from the terrain of economic ethics to that of global politics, where the inadequacies are no less obvious than in the area of business ethics and social responsibility. The book recounts the difficulties, describes both the national and international precedents, and suggests possible ways in which the proposed regulations can be implemented on a global scale.

Nevertheless, there are two aspects that require additional reflection. First, the multi-polarization of the world means that every political proposal has to incorporate the perspective and the interests of the emerging economic powers. In this sense, the book concentrates perhaps excessively on the Europe-U.S. (or the France-U.S.) axis, as if Russia, China, and the major Islamic and Latin American countries are going to kowtow to the vision and the leadership of the West. This is far from being a certainty, since those countries' reading of history is very different from that of the North Atlantic countries.

Second, when the book was published, the G-20 meetings suggested that United Nations mechanisms were somewhat obsolete, based as they were on very slow and often inoperative international treaties. Is it conceivable that the G-20 — or as some fear a G-2 made up of the U.S. and China — might constitute a sort of World Government that is more effective than the voluntary hyper-multilateralism of the United Nations? Is it possible that the G-20 will decide upon measures with global reach and impose them on others when the U.N. system is unable to do so? (Just look at the Doha Round). As is quite obvious, which propositions become politically viable and which do not will depend heavily on who is making the decisions with regard to this crisis and how the decisions are made.

It would be unjust to censure the book for not attending to these aspects of world governability in more detail, considering the fact that that is not its main concern. The 20 proposals treat of what needs to be reformed in globalised capitalism, and the book's suggestions regarding institutional precedents and viabilities are aimed mainly at showing that the proposals are not abstract or utopian, but quite concrete and feasible — if only there exists the political will. The development of that effective political will on a global scale is quite another topic, one that would need to be developed from other perspectives, such as the juridical and the political. At the end of the book the editors describe the ethical motivation that is indispensable for any attempt to reform capitalism, and they do so in a tone that suggests that we still have a long way to go along that path.

20 Proposals for Reforming Capitalism is a book that is born of a desire to generate discussion. Let us hope that such is the case, and that other technical contributions of the same quality are forthcoming to enrich the search for solutions to the global crisis from a Catholic perspective. Ultimately, the crisis reveals such serious structural problems in the global economic arrangement that we cannot allow ourselves to be led into false solutions, applying a few patches to help us "get by", without really learning much or making any great changes. This is the basic challenge presented by the book we are reviewing: the present situation is one that provides us with an opportunity to modify some key structures and thus help prevent this crisis from being succeeded by other economic, social, or ecological crises that are even more severe. This first truly global crisis can thus become an opportunity for all humankind to conceive of itself as one community, and so put order into the economic dynamics that unite us with one another and with nature.

The 20 proposals to reform capitalism: ¹

1. Make the social function of the company into a strategic priority: to encourage and to restrict
2. In favour of an independent monitoring, financial and extra-financial, of companies
3. Integrate environmental, social and governance elements into financial analysis and investment
4. Review wages in order to re-bestow companies with meaning
5. Remunerate financial operators according to their just value
6. Train analysts and financial operators
7. Improve securitisation in order to repair the damage of the crisis
8. Transform credit derivatives into trustworthy shares
9. Restore the primary function of terminal markets for raw materials
10. Put financial mathematics at the service of what is real
11. Improve risk control
12. Regulate pension funds in order to save European retirees
13. Regulate over-the-counter markets
14. Marry Basel II with economic policy objectives
15. Realign the accounting of exotic derivatives with reality
16. In favour of a de-territorialised tax system for multinationals
17. In favour of tax optimisation measurement tools
18. Establish global taxes
19. Reform the ECB to prevent bubbles
20. In favour of a “green”, equitable and pluralist capitalism

¹A synthesis of the 20 propositions, in French and English, may be read at <http://20propositions.com>.

This article was first recently published by the Jesuit Secretariat for Social Apostolate, Rome, and is reproduced here with gratitude by special permission of the publisher. The book deserves Chinese and English translations.

Raúl González Fabre is a Jesuit of Venezuela and an engineer and philosopher: Doctor in Philosophy, USB (Caracas); Industrial Engineer, UNED (Madrid); Civil Engineer, UCAB (Caracas). His areas of interest are very wide: theory of economic justice, microeconomics, economic anthropology and psychology, theory of war and peace, refuge and migrations. In several of his assignments he has provided formation on socio-political issues to grass-roots church groups since 1987. A member of the Jesuit Latin-American Group of Philosophical Reflection since 1992, he has published several articles in the books of the group and in other collective works and journals. He has been coordinator of the Jesuit Refugee Service (JRS) in Latin America (1997-1999) and policy officer of JRS in Zambia (2000-2002). Since 2003, he has been a fellow of the Instituto de Investigaciones Económicas y Sociales, Universidad Católica Andrés Bello (Caracas), and teaches Ethics and Economics at the School of Economics of the same university.