Three core ideas to change the economic paradigm – proposed by Georges Enderle

(explained in detail in *Corporate Responsibility for Wealth Creation and Human Rights* to be published by Cambridge University Press in December 2020)

1) The **purpose** of the economy and thus of the business enterprise is **the creation of wealth in a comprehensive sense**. This involves seven features with far-reaching implications.

2) In accordance with the UN Guiding Principles on Business and Human Rights (UNGP 2011), **all 30 internationally recognized human rights** are relevant as minimal ethical requirements for business and economic ethics in the global and pluralistic world.

3) **Corporate (moral) responsibility** includes three components: The ***subjects*** of responsibility ("who is responsible?") are business enterprises conceived as "moral actors" – to the extent they are "corporate actors" (Coleman 1991). The ***contents*** of responsibility ("for what one is responsible?") consist in creating wealth (see point 1) and respecting human rights (see point 2). The ***addressees*** of responsibility ("toward whom is one responsible?") are not only shareholders and other stakeholders, but also society at large, future generations and nature.

The first core idea defines wealth creation with seven features implying far-reaching consequences:

- The *macro-perspective on the economy* emphasizes *the primary interface* between "business" and "society." This economic approach is an "ethics-related approach" (Sen 1987), which includes human motivation and the judgment of social achievements.
  Implication: Critique of the "engineering approach" to economics as the only relevant approach.

- *Any economic system* is defined with three (not one) essential sets of criteria (Kromphardt 1991): (1) Criteria of ownership and rights of disposal. (2) Criteria of information and coordination. And (3) criteria of motivation.
  Implication: Critique of capitalism must account for all three sets of criteria.

- *Wealth creation in a comprehensive sense* goes beyond the common view of "wealth" and encompasses *seven features*:

- The first feature pertains to *the substantive contents* of wealth, namely natural, economic, human and social capital (see also OECD 2013): natural assets and liabilities, physical and financial capital, healthy and educated people, and trustworthy relations between economic actors.
  Implication: The limited focus on financial and economic measures (with the common understanding of profit) distorts the meaning of profit (and its maximization) and misleads decisions about wealth creation (see Mayer 2019).

- The second feature characterizes *the formal aspects* of capital in terms of private and public goods (the latter defined by non-excludability and non-rivalry; different from the definitions of "common good"; Enderle 2018). The wealth of a society is understood as *a combination of private and public wealth* – not just as an aggregation of private wealth. Thus the creation of private wealth depends on the availability of public wealth, and, in turn, the creation of public wealth is dependent on the availability of private wealth. Consequently, the market institution and the motivation of self-interest – powerful drivers for creating private wealth – can only play a limited – though indispensable – role in creating wealth in the comprehensive sense. Collective actors (like the state and local communities) and other-regarding motivations (see below) are necessary as well. (That's why the term "marketplace" that stands for the economy is misleading.)
  Implication: Critique of the widespread ignorance and denial of public wealth (as public goods *and* public bads). The Covid-19 pandemic has demonstrated unequivocally the relevance of public bads.

- The third feature conceives wealth creation as a process whose *productive and distributive* dimensions are interrelated. Its distributive dimension permeates the original endowments of resources, the processes and the outcomes of wealth creation. If the distributive dimension is not understood and accounted for, the productive dimension cannot be properly understood either.
  Implication: Ignorance of the distributive dimension leads to misallocation of resources, unawareness of differentiated economic impact of corporate policies, failure in achieving long-term wealth, insensitivity to ethical demands of fair wages and many other consequences.

- The fourth feature highlights both the *material and spiritual* aspects of wealth creation. It rejects a materialistic understanding of wealth that is excessively concerned with material possessions and making money, driven by consumerism, acquisitiveness and greed. Because wealth consists not only of economic capital, but also of human, social and natural capital, human beings and their relation to nature transcend the material aspect and relate to the human spirit or soul (regardless religious beliefs) and/or to religion and religious belief.
  Implication: Creating wealth is an honorable activity.

- The fifth feature accounts for the *long-term* horizon conceptualized in terms of *human capabilities* (Sen 1999), based on the definition of sustainability "to meet the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development 1987). This perspective of human capability not only substantiates the meaning of human capital; it also helps to measure the impact of natural, economic, and social capital on human beings.
  Implication: Creating sustainable wealth becomes a rich and concise purpose of economic life which transcends the growth of (material) resources by focusing on people and sustaining nature.

- The sixth feature defines the "creation" of wealth as making something new *and* better. All three characteristics are essential: (a) It is about making – not only imagining – , which is feasible and successful in economic and financial terms. (b) It has to be new, be it a gradual change or an innovation (that is, a radical change in technology, social organization or any other field). And (c) it must be ethical which improves the well-being of people and sustains nature.
  Implication: Creating wealth as "ethical innovation" is much more than possessing and acquiring wealth.

- And the seventh feature requires both self-regarding and other-regarding motivations in order to create wealth in a comprehensive sense.
  Implication: Exclusively self-interested behaviors make collective action (for public wealth) impossible, generate free-rider problems, and cannot be coordinated by an "invisible hand."

The second core idea defines the normative-ethical dimension in terms of human rights in line with UNGP and as global public goods.

This framework contains four characteristics:

- It includes *all 30 human rights* listed in the International Bill of Rights and the ILO core conventions: civil, political, economic, social, cultural rights and the right to development.

- Human rights are identified as *minimal ethical standards* indispensable for everyone to live and work with dignity on Earth. As minimal requirements, they can open and guarantee a wide space for an immense diversity of cultural and ethical values and norms. Grounded in human dignity and specifying its basic contents, they are all interrelated, interdependent and indivisible and thus do not allow for trade-offs between particular rights.

- The fulfillment of human rights is considered *as ends* to be achieved by public policies and corporate strategies whereas violations signify failing policies and strategies. Human rights can also be understood *as means* to fulfill other human rights and achieve other ends (of wealth creation).

- Human rights are conceived and argued for as *ethically demanded "global public goods,"* characterized by non-excludability and non-rivalry. Their establishment and fulfillment cannot be achieved by market institutions; rather, they need collective actions at multiple levels of society beyond the price mechanism of supply and demand. Moreover, the motivations must be other-regarding because self-regarding motivations would fail to fulfill human rights as public goods.

The third core idea proposes "a balanced concept of corporate responsibility" that includes wealth creation as the descriptive-analytical side and human rights as the normative-ethical side.

- Business enterprises are conceived as ***"moral actors"*** in an analogous sense to moral persons. This holds to the extent that they are ***"corporate actors"*** with relatively free-standing formal structures (J. Coleman 1990): They form collective entities that are distinct but not separated from individual members, having certain spaces of freedom, acting with intention (or at least exhibiting intentional behavior) to achieve their goals and impacting people and nature.
  Implication: Corporate responsibility complements, but does not replace individual responsibility of business leaders.

- The ***contents*** of corporate responsibility are defined by *the seven features of wealth creation* and *the UNGP criteria of respecting human rights and remedying for human rights violations:*

  - Regarding natural, economic, human and social capital, each enterprise has its special focus and must meet at least a minimal level of each capital.
  - Each enterprise must create private wealth and contribute to the creation of public wealth.
  - Each enterprise is accountable not only for its production but also for its interrelated distribution – for example, for income inequality in its organizations.
  - Corporate culture should not be dominated by money making and greed. Rather, it should aim at a noble goal that addresses both material and spiritual needs of employees, customers and others.
  - Each enterprise strives for gradual changes and/or groundbreaking innovations while considering the ethical implications and respecting the ethical demands.
  - The driving motivation of the enterprise cannot be exclusively self-regarding. Ethical other-regarding motivations are required for public wealth and human rights.

  - Regarding human rights, each enterprise lives up to the foundational principles of UNGP:
  - Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur;
  - Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.
  - A policy commitment to meet their responsibility to respect human rights.
  - A human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights.
  - Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.

- Who are the ***addressees*** to whom business enterprises are morally responsible?

  - *Rejected* is the view of the prevalent agency model of maximizing shareholder value. For it claims that enterprises are not "moral actors" and consequently cannot morally respond to any addressee. And even if only the individual "agent" is considered, he or she cannot be held responsible by the "principal" for things other than shareholder value maximization (with Friedman's caveat of "engaging in open and free competition and without deception and fraud"; 1970); thus the "agent" bears no responsibility for wealth creation and human rights.

- The stakeholder approach conceives the enterprise as a corporate or even moral actor that must consider the interests of multiple stakeholders and even respond to them in an ethical sense. *However*, the contents of corporate responsibility are not specified in terms of wealth creation and human rights. Moreover, the creation and destruction of wealth by businesses often have a much larger impact (especially in terms of public goods and public bads) beyond identifiable stakeholders.
- Therefore, the addressees of corporate responsibility *include not only all stakeholders, but also society at large, future generations and nature.*

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