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ABSTRACT

The Socialisation of Capitalism for the New Economic Paradigm

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In this paper I ask whether the failures of the prevailing economic paradigm is inherent to the wealth-creating aims of capitalism or whether neoclassical economic theory has overlaid capitalism with a rationalistic self-interested model for human relations that has failed to address the call of social justice making the profit motive the only goal of economic relations.

The claims of justice and the capitalist system are effectively a matter for those actors who can influence the accumulation and distribution of capital between private and public goods on grounds of distributive justice.

Signs of a new economic paradigm are emerging in which an interdependent responsibility is being realised between the principals of private goods and the principals of public goods. Motivations for greater alignment between the private and public sectors appear to incorporate both self-interest and public interest as I shall illustrate in the paper. But a new economic paradigm must also address the call of justice for the poor, marginalised and excluded.

The narrative of ersatz capitalism portrays rational *homo economicus* (acting as selfish single-minded *homo avaritia*) seeking to maximise personal utility in every economic transaction and market managers fine-tuning complex business systems to reach a data point at which assures the maximisation of shareholder value with no other bias in the frame. No system can unpick the myriad of motivations that different consumers and investors make in their transactional decisions to support the imperialist rational choice theory that finds little support amongst contemporary economists. The model has been widely rejected by economists over the decades.

Nevertheless, “old paradigm” neoclassical economic theory has left its mark in associating capitalism with all that is unethical in the creation and distribution of goods and wealth. Responsibility for greed, fraud, criminality and despotic exploitation of competitive markets at the expense of society lie with moral agents and not with the mechanism of exchanges. The human drivers for self-interest can subsume the sense of justice and concern for the future of the planet. Egoism and fear are forces that assuage Smith’s “sympathy” and the commonly shared heritage of virtues which assume that we are moral agents.

But societal norms, whether expressed formally in law or regulation or by communitarian obligations, represent societal restraints on unfettered self-interest. The hope for a new economic paradigm is that different forms of ‘socialised’ capitalism are emerging with moral agents of sustainable enterprise

deploying technological, productive and innovative goods for the wellbeing of all and in the most efficient way possible. Profit is **a** motive but not **the** motive. The hope is represented in the incorporation of stakeholder agency by management and institutional investors such as BlackRock.

A new economic paradigm requires social innovation by entrepreneurial businesses and a legal framework with clear, streamlined law to effectively tackle disadvantage and discrimination. A legal framework requires legal enforcement to remove social abuses and biases but also a society sensitised to the moral imperatives of distributive justice.

The full paper outlines three emergent ideas showing that capitalism can be driven by socially concerned moral agents to innovate and invest in ecosystem protection and the creation of new and accessible markets for the marginalised and poor. I shall make the case that a new economic paradigm can combine both capitalist incentives (self-interest) with a socialisation that incorporates other-interest, or, the common good. The three emergent ideas are: (i) Corporate Total Value Creation; (ii) Governmental Value Creation and (iii) Digital Capitalism for the Poor.

Total Value Creation refers to the value created across multiple stakeholders and with company performance increasingly measured by ESG (environmental, social, and governance) metrics. Whether for greenwashing purposes or genuine commitment or both, investment and fund managers have increased their use ESG data in the selection of fund portfolios of companies.

Two cases that illustrate the corporate movement to Total Value Creation beyond shareholder value can be seen in the growth of the B Corp movement by B Lab Global and the actions taken by BlackRock, the world's largest investment manager, in voting against directors who are not performing against given social and environmental goals.

A new economic paradigm requires new and transparent systems of governance to use capitalism for social ends and to end "crony capitalism" and "casino capitalism". The socialisation of capitalism requires advances in international taxation law enforcement. For the cause of common goods, such as solidarity and subsidiarity, governments need to feel the pressure of society through its key opinion leaders and voters to internationalise taxation law enforcement and ostracise rogue tax havens. The *OECD Model Tax Convention* is one means towards this end.

When governments intervene in capital markets with grants or subsidies to promote innovation and enterprise that subsequently result in wealth-creating innovations the returns do not often flow back to the public investors through royalties or equity profit-sharing. Fair returns are required to society when governmental investment results in private wealth creation.

Many of the world's poor live in regions where the basic principles of contract and private property are not sufficiently strong enough to support the economic freedom that characterises competitive markets. The advent of financial technologies offer new and secure ways for finance and contractual relations. The M-Pesa mobile banking service and blockchain distributed ledger technology will be explored as emerging ideas which offer the poor access to property rights and capital.

The three ideas afford hope that capitalism can be used to better realise "sustainable and integral development" for all.