

Reforming capitalism and the welfare state

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RETHINKING SOCIETY FOR THE 21st CENTURY
 Report of the International Panel on Social Progress

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social progress

A Manifesto for SOCIAL PROGRESS
 Ideas for a Better World

MANIFESTE pour LE PROGRÈS SOCIAL
 Idées pour un monde meilleur

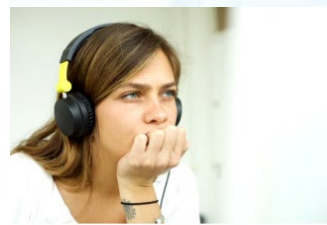
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 Olivier Bouin • Marie-Laure Salles-Djelic | Ravi Kanbur • Helga Nowotny | Elisa Reis
 Foreword by Amartya Sen

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 Avant-propos Amartya Sen

VOLUME 3: TRANSFORMATIONS IN VALUES, NORMS, CULTURES

IPSP International Panel on Social Progress



Director : Sofie Wolthers, Filmmakers first feature length film.



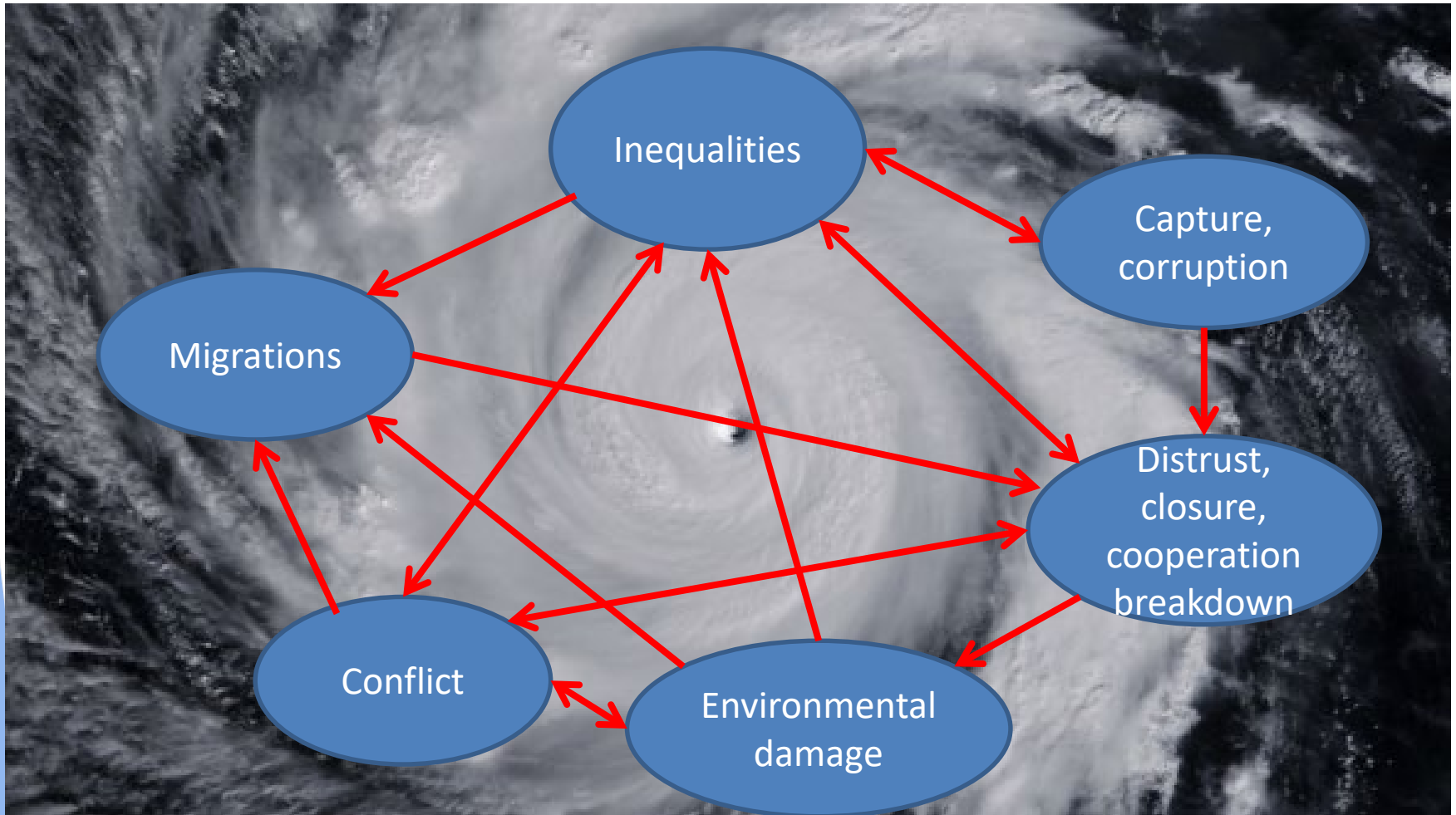
<https://vimeo.com/ondemand/anewsociety>

Professoren op de barricade?

- Responsibility of our generation
- Be transparent about values
- Conditional recommendations: for given values and goals, appropriate actions
- Feed the public debate, not whisper to the prince's ear

At the peak of possibilities,
we face a chasm

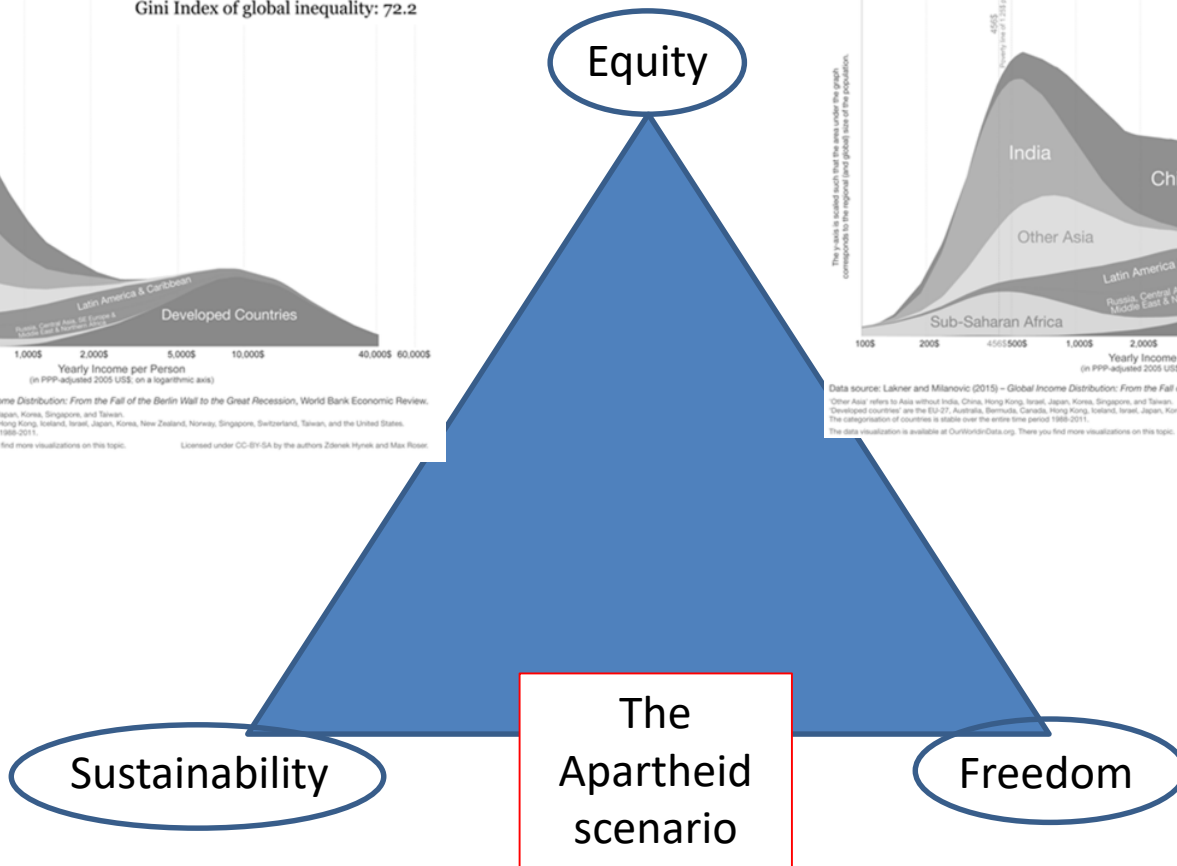
Feedback effects and looming catastrophes



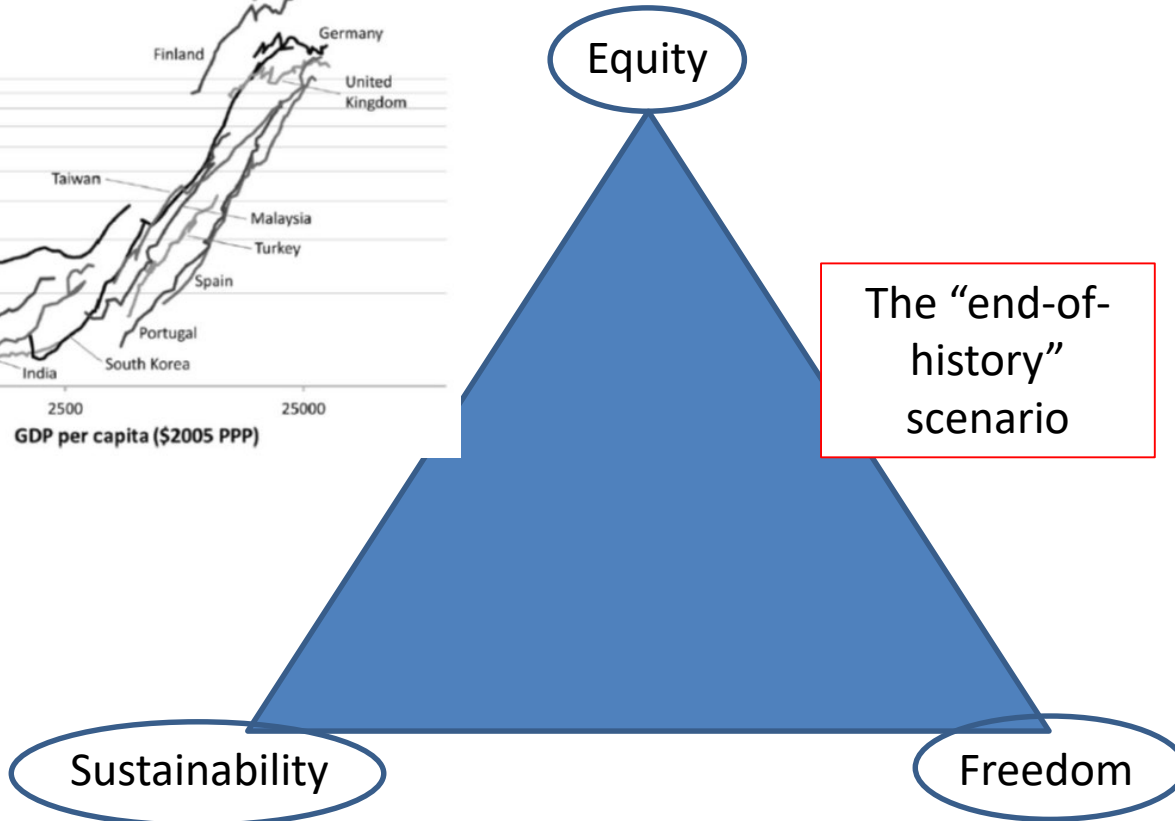
Three fronts



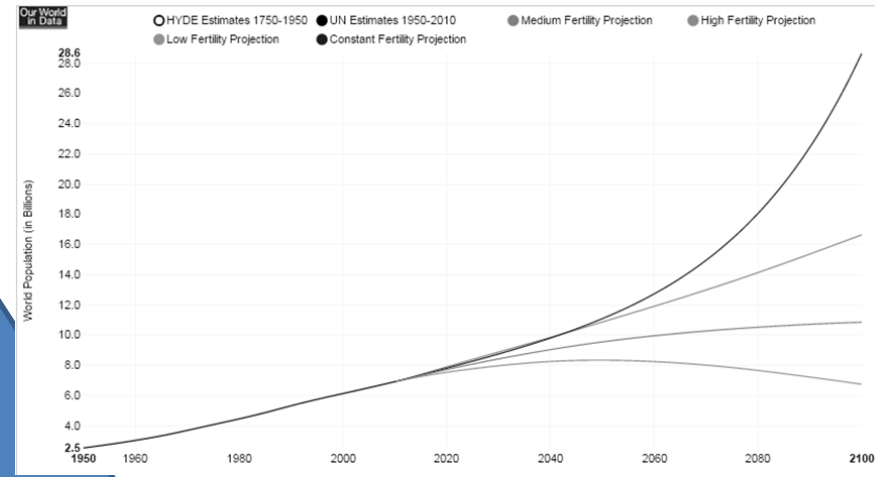
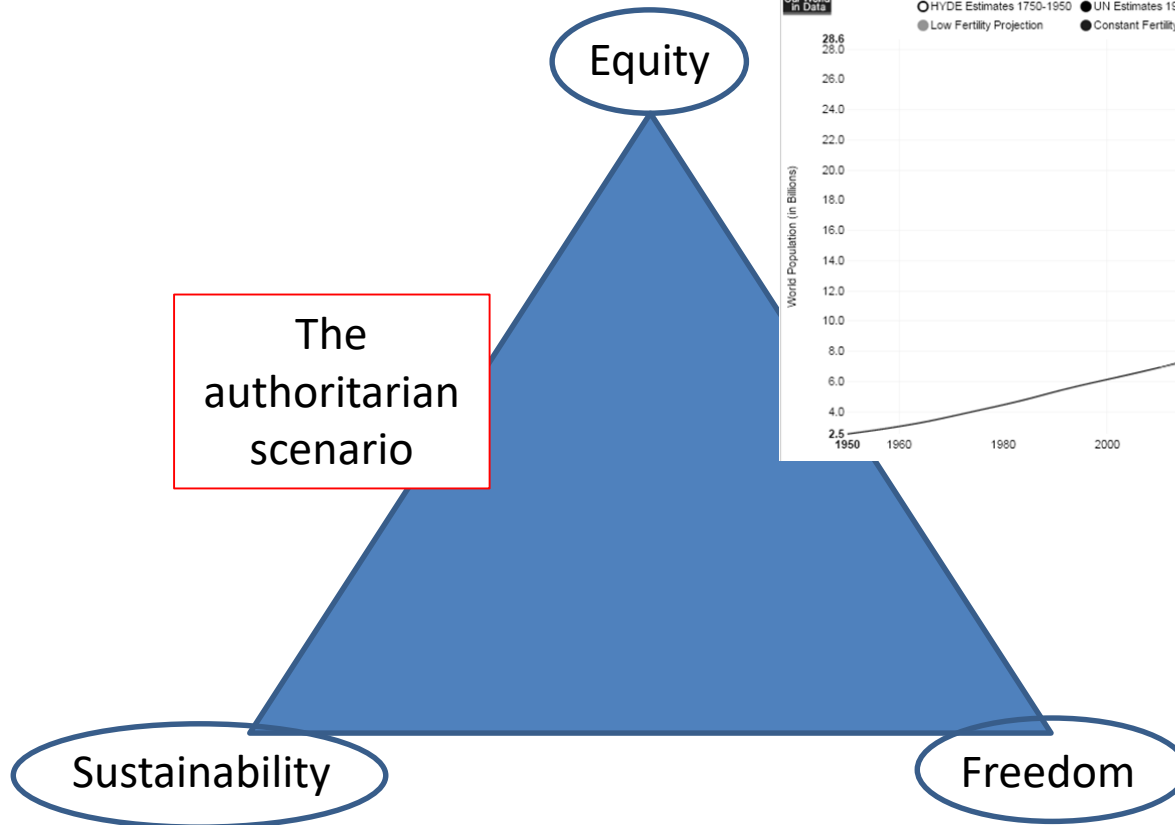
Three goals, each is essential



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Three goals, each is essential



Action plan?

- Promote social progress along three lines:
 1. Rescue the losers (taxes and transfers)
 2. Prepare people (pre-distribution)
 3. Change the rules of the game: socialism?

Beyond capitalism and socialism

- Market, state, but don't forget families, firms, communities
- Dignity is the foundation: involves knowledge, resources, power, status

“The worst thing about living in extreme poverty is the contempt, that they treat you like you are worthless”

- And don't forget sustainability

Free the corporation

- Governance and purpose are linked: the corporation has been captured by shareholders and their managers
- Involve stakeholders into governance, and let the corporation create value for all
- Foster an ecology of businesses of different types (including cooperatives and benefit corporations)

Limits to private freedom

- Guarantee dignity in all transactions (ban subordination, not just harassment and slavery)
- Impose democratic management
- Preserve competition and fight rents
- Monitor and regulate/incentivize externalities
- Reconsider limited liability

Toward an emancipatory state

- Guarantee dignity in all transactions (ban subordination, not just harassment and slavery)
- Impose democratic management
- Preserve competition and fight rents
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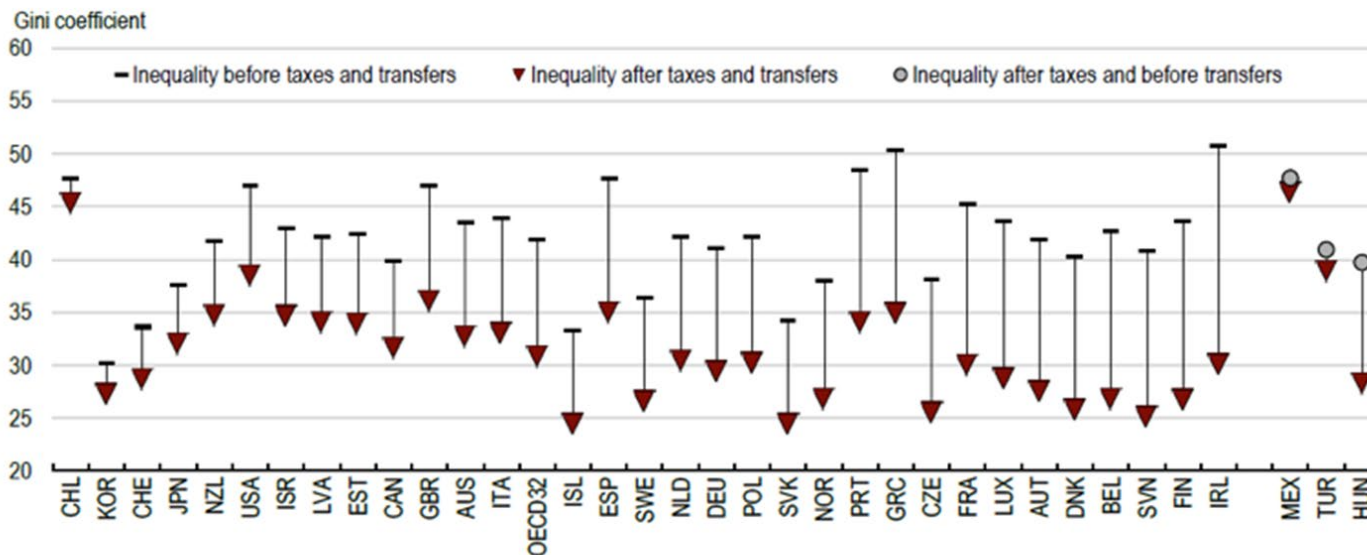
Toward an emancipatory state

- Preserve the fair and sustainable rules of the economy
- Incentivize and contribute to innovation
- Universal safety nets and quality services (for equal opportunities, gender equality...)
- Dilute inheritance of all sorts

The welfare state under pressure?

- Diversity of policies proves that national policy is still effective

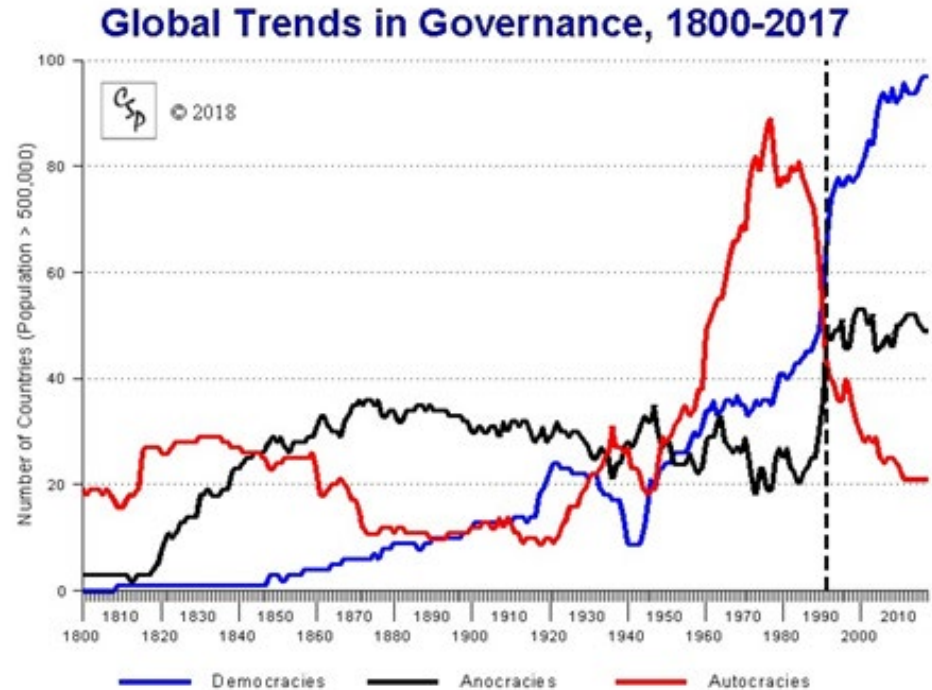
Figure 3: Gini coefficient before and after redistribution



Source: Causa and Hermansen (2017).

Democratize politics

- Toward democratic funding
- Media system as a public good
- Develop participatory mechanisms
- Improve voting rules, make voting compulsory



What about a global democracy?

- Need for better governance of international institutions
- Need for governance of global commons
- A world government is not in the cards
- Civil society needs to scale up and internationalize

We need bottom-up momentum

Six ideas to change your life and the world

1. Bring change through your family
2. Bring change through your work
3. Bring change through your consumption and savings choices
4. Bring change to your community
5. Be a torch-bearer (stay informed)
6. Be an active citizen

More on capitalism based on recent research

Understanding the market economy

- The market is a primarily cooperative system bringing mutual benefit to the traders
 - Competition is a secondary feature
- The firm is a cooperative venture involving:
 - Customers
 - Suppliers
 - Financiers
 - Workers
 - Local communities
 - The environment

Capital vs.
Labor



Two common and related mistakes

- Competition is central to the market (lack of coordination on either side is good for the other side)
- Firms are owned by shareholders or more generally by their members in charge
- Why is this mistaken?
 - Cooperation is much more essential: mutual benefit (no essential difference with the love “market”)
 - Firms do serve the interests of all stakeholders, capture by a subgroup is detrimental to the others and to the total pie

Why are these mistakes related?

- As soon as a subgroup captures the firm venture, the others risk being squeezed and fall on “the other side” of the market
- Lack of coordination and competition among the captors then serves as a protection of “the other side” of the market
- So: Competition is important in the shark world!
- Note that it does not protect the parties that are not traders (the environment, local communities)

Competition is a double-edged sword

- It puts pressure on inefficient technologies and organizations: good
- It puts pressure on ethical and responsible behavior (only the doped win the Tour de France): bad
- The triumph of the ruthless is a tragedy (inefficient and unfair)

Competition fosters profit-seeking rather than surplus-seeking

- A viable firm must pay its bills out of its sales revenues
- This makes the firms with greater profit more viable, stronger in the competition
- Therefore competition puts pressure on the firms that maximize the total surplus for the stakeholders rather than the profit (which goes to the captors, generally the shareholders)

What does a stakeholder firm do?

- It maximizes total surplus of shareholders (consumer surplus, worker surplus, profit...)
- This can be done by maximizing profit under the constraint of not exploiting the firm's market power

What about externalities?

- A responsible firm maximizes the total surplus including the (dis)value of externalities
- This can be done by maximizing profit with a deduction for externalities (“polluter pays” principle)
- A profitable firm may actually not be profitable taking account of this correction for externalities!

The big problem

- How to incentivize responsible behavior?
- Computing the surplus is hard (subjective)
- Checking responsible behavior may be easier
- Changing corporate purpose and governance seems necessary: stakeholders would act as checks on responsible rules
- But is it sufficient?

Thank you!