The reset of capitalism (in Europe)

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Summary

1. “Capitalism, it’s time for a reset”, the Financial Times headlined in September 2019 already. But how will this reset come about? One thing is certain: no-one and no one institution is going to achieve this turnaround on their own. Neither the business sector nor the banks, governments, politics, science, the yellow vests or the youth. Only when a large number of these actors are convinced, and willing and able to act collectively, change can take place.
2. With its programme Finance and the Common Good, Socires wants to contribute to this turnaround. Within this comprehensive process, Socires focusses on one particular part, namely finance, i.e. the allocation of capital. Our attention is primarily directed towards the owners and distributors of wealth. Naturally, this is only one part of the necessary process of change. However, it concerns the central axis of capitalism. The Great Reset is not imaginable without a Great Reallocation.
3. Global wealth is highly concentrated in the hands of a relatively small number of institutions and individuals. A sizeable chunk of this wealth is now being invested in stocks and real estate via anonymous markets, the main motive being short-term returns. The question that comes with the Great Reallocation is how the wealthy can be brought to stop investing their money via anonymous markets, but rather make the switch from speculating to targeted, productive long-term investments in selected companies. We call this the change from transactional to relational finance.
4. It has to be noted that national governments cannot, or only to a very limited extent, enforce this change to relational finance. The wealthy are footloose, extremely mobile and therefore hard to steer repressively. Rather, the reverse seems to be the case, namely that just like listed companies, national governments have become rated agencies, whose behaviour is partly influenced by (the decisions of those wealthy on) the financial markets.
5. Socires wants to investigate the possibility to incentivise the wealthy in a different, non-repressive manner to invest (an increasing part of) their wealth in a targeted and productive way (equity). We want to achieve this by organising so-called transformative dialogues, with participants from wealthy institutions, companies, banks, governments, academia and civil society.
6. Although the government is not a leading force in the Great Reallocation, it will play an important facilitating and stimulating role, for example by (no longer disincentivising but) incentivising equity fiscally. The government can also act as a partner of the wealthy when it comes to socially productive investments, in for instance health care, housing, climate, innovation, IT and infrastructure.
7. A certain scale is needed for a successful Reallocation. When we consider the rapid geo-economic and geopolitical changes in the world, Europe is the only possible, realistic ánd necessary scale. For the first time in recent history, Europe finds itself locked in between non-friends again (China vs. the US, Russia, Turkey, Iran), and will therefore have to (re)invent its own economic model soon.

The Great Reset
In March 2020, the corona crisis erupted in Europe. What started as a health crisis is increasingly becoming a social and economic crisis, putting a strain on many relationships in society. This way, corona could end up being a catalyst for a systemic change that had already been announced earlier. Three moments:
1) At the end of the summer of 2019, the American Business Round Table presented “a new statement on the purpose of the corporation”[1]. 181 CEOs of the biggest American companies committed to stakeholder capitalism by signing the statement. In doing so, they said goodbye to the famous Friedman-doctrine “the only purpose of business is profit” and thus to the one-sided focus on shareholder value. The big companies also promised to strive for the general wellbeing of their employees, suppliers and communities in the future.
2) In September 2019, the Financial Times announced its new journalistic guideline: “Capitalism. It’s time for a reset.” Contemporary capitalism is not working for everyone, the newspaper observed: a small and wealthy group is skimming off profits, while the rest is finding it increasingly hard to keep their heads above water. And it is especially the financial sector that is further fuelling this downward spiral. On behalf of the editorial board of the Financial Times, Martin Wolf wrote an explanation: “What we increasingly seem to have (…) is an unstable rentier capitalism, weakened competition, feeble productivity growth, high inequality and, not coincidentally, an increasingly degraded democracy”[2].
3) This message was also received in Davos in January 2020. The yearly theme of the World Economic Forum read: “Stakeholders for a cohesive and sustainable world”[3].

This looked like a broadly shared announcement of real change in capitalism. The reality soon turned out to be different. Hardly two months after the end of the WEF, after the first corona measures and lockdowns, many big companies, including the participants of the Business Round Table, resorted to mass layoffs. At the same time, they distributed high profits to their shareholders. It prompted the Financial Times to conclude, on 3 April 2020: “[The] virus lays bare the frailty of the social contract. Radical reforms are required to forge a society that will work for all”[4]. The New York Times, too, observed on 13 April 2020 that the promise of a “stakeholder-capitalism” turned out to be a very thin one[5].

The Great Reallocation
Within a short span of time, it has become clear that the necessary reset of capitalism will not be brought about by the market, despite all the calls for ethical behaviour and the statements made in Davos and by the Business Round Table. When it comes down to it, it turns out that all regular big companies are kept in check by shareholders and the regimentation of the

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[1] See: https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

[2] Martin Wolf, *Why Rigged Capitalism is Damaging Liberal Democracy* (Financial Times, 18 September 2019), see: https://www.ft.com/content/5a8ab27e-d470-11e9-8367-807ebd53ab77

[3] *Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution.* See: https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/

[4] *Virus Lays Bare the Frailty of the Social Contract* (Financial Times, 3 April 2020), see: https://www.ft.com/content/7eff769a-74dd-11ea-95fe-fcd274e920ca

[5] *Big Business Pledged Gentler Capitalism. It’s Not Happening in a Pandemic* (New York Times, 13 April 2020). See: https://www.nytimes.com/2020/04/13/business/business-roundtable-coronavirus.html

financial markets[6]. Moreover, the new tech monopolists (GAAFA) clearly have too much market power to care about the call for a reset[7].

This observation has caused many to call for firm government intervention. Covid only reinforces this: in the recent crisis response, the power of the (national) state turned out to be unexpectedly big. In a short period of time, we are dealing with a swing of the pendulum from market to state.

But the (nation) state will not be able to reset capitalism either, because in attempting to do so it lands upon at least three limitations:
1) The political will and/or electoral majority for such a reset is lacking in all Western countries.
2) No country can afford to change alone, due to the threat of the flight of capital (arbitrage). However, supranational coordination is further away than ever (policy competition).
3) Governments themselves depend on (the developments on) capital markets in two ways. First of all because they have increasingly become rated agencies themselves – because of their financing needs, they too feel the regimentation of the market (although this is currently working in the Netherlands' favour because of low interest rates). More importantly, however: stock market fluctuations have an effect on the real economy, and often that effect must be absorbed by the government. Think of the crisis that followed the near-capitulation of the banks in 2007/8 and the subsequent major intervention of the government.

The Great Reset is improbable as long as both companies and states are steered and disciplined to a large degree by investors (and their entourage) on the financial markets. Who are these investors? Mostly institutional funds, banks and the (super) rich; in short: the wealthy. These wealthy are footloose, extremely mobile and therefore hard to steer. However, through their decisions about the use of their assets, they have a big say in what will exist and what will cease to exist.

Relational finance: from speculating to conscious investing

In this light – with a view to promoting a good outcome of a reset of capitalism – the first and foremost challenge is: how to achieve productive investments from the wealthy in companies that can contribute to the common good? For there are ample problems begging for investments: climate, inequality, housing markets, innovation, infrastructure, etc. Rather than a reset, a Great Reallocation[8] is what we need.

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[6] (In)famous by now is the example of Paul Polman at Unilever. As Jeroen Smit illustrates in *Het Grote Gevecht* (2019), Polman has to set aside his ideal of a long-term orientation for Unilever several times, pressured by shareholders.

[7] As argued among others by Rana Foroohar in her recent book *Don't Be Evil. How Big Tech Betrayed its Founding Principles – and all of us* (2019).

[8] The concept of "The Great Allocation" was coined by Agustin Carstens, director of the Bank for International Settlements (BIS). It is also the title of his speech on 12 October 2020, see: https://www.bis.org/speeches/sp201013.htm
Some quotes from this speech: "[…] Policymakers can no longer depend solely on fiscal and monetary stimulus. Structural reform and targeted support are also needed. […] To steer the reallocated resources - including human capital - toward sectors that will genuinely benefit the national economy in the long term, policymakers should consider formulating forward-looking industrial strategies. […]. This unprecedented reallocation will require concerted action by all stakeholders, private and public. […] International coordination will also be essential."

Much wealth is currently invested, in all kinds of ways and in all kinds of objects, via the capital and real estate markets. The question is: how can the wealthy be brought to make the switch from speculating to *consciously* investing; from speculating via anonymous systems (senseless agencies[9]) to targeted and long-term investments in selected (European; see below) companies; to turn their wealth into productive capital?

For this, too, many look to the government, but the question is whether repression and pressure from the state will work, and whether it is desirable – considering the importance of the rule of law for the autonomy of both the wealthy and companies. We could first of all, however, try to bring both parties together. The wealthy, the banks and companies within Europe should get to know each other, inform themselves, build trust and start to collaborate.

Other parties, both national and European, can play an important facilitating and participating role in this process. This is where the second challenge arises. The government (again: both national and European) can promote such productive European investments with infrastructure, laws and regulations, fiscal measures and other means. And in case public goals are being served, it can also co-fund and participate as a third party (public-private partnerships, blended finance). Furthermore: companies and employees (unions) can be part of the discussion and have a say in the future of the investment and the company.

It is not market *or* state, therefore, but: the wealthy *and* companies, *plus* governments *and* employees. For a reset and reallocation, adjustments and finetuning are needed between the two or four parties. This means: no longer being governed by anonymous systems of market or state, but being able to make deliberate decisions autonomously, in a humane and dignified way: by consultation, consideration and dialogue.

Europe: capitalism, humane

For Europe, the importance of the Great Reallocation also stems from recent developments. For some time now, Europe has been on its own, geopolitically and geo-economically speaking. Around the continent, (former) allies like the United Kingdom, Russia and Turkey are no longer automatically favourably disposed. On a larger scale, Europe finds itself locked between the (ideological) extremes of super-market; the United States, and super-state China. Angela Merkel already stressed the loneliness of Europe in 2017: "*Die Zeiten, in denen wir uns auf andere völlig verlassen konnten, die sind ein Stück vorbei. (…) Wir Europäer müssen unser Schicksal wirklich in unsere eigene Hand nehmen.*"[10]

The relative loneliness of Europe will not end with President Biden entering the White House. Therefore, Europe will have to start working on its new independence soon. The question is if a defensive view of the importance of Europe (*against* the US and *against* China) is enough to rally the necessary support. The need is great to reactivate Europe's own ideals in terms of economy and society.[11] From Europe's long economic history stems the promise of

[9] A concept by Albert North Whitehead, from *Adventures in Ideas* (1933).

[10] See: https://www.sueddeutsche.de/politik/g-7-krise-wir-europaeer-muessen-unser-schicksal-in-unsere-eigene-hand-nehmen-1.3524718

[11] Ironically, it is exactly these ideals that are already recognised elsewhere. Full of admiration, American economists write about the European social economy and welfare state. Where are the Dutch and European politicians praising their own economies – not only for their competitiveness, but also for their social powers?

"capitalism with a human face" (e.g. Rhineland tradition[12]). This is the kind of capitalism world leaders refer to when they talk about stakeholder capitalism. It is becoming increasingly clear that only Europe can fulfil this promise of a humane capitalism. Here lies a great opportunity for Europe, therefore: to take the lead. But time is running out..

Europe now urgently needs people who want to engage with this promise of a humane society and capitalism with a human face. Leaders who care about the future of the continent's economy and society. Politicians, CEOs and wealthy individuals with a sense of place and belonging, who want to pave the way for a European Great Reallocation.

What Socires has in mind with the Great Reallocation, is European capital being invested in European companies, and vice versa, European companies being financed with European capital; these investment decisions resulting from a dialogue between the European wealthy and European entrepreneurs; and this process being maximally supported and promoted by national and European laws and regulations.

This idea was not born from gloomy nationalism or anti-globalism, but from the conviction that a better balance is needed between global and local, between place of production and place of consumption, between mobile wealth and immobile labour, between large-scale politics and small communities, between freedom and responsibility, between short- and long-term.

The point now is to generate and strengthen this will and engagement. How can we get these European financers and entrepreneurs to gravitate towards each other and start working together – to Europeanise, i.e. engage as 'somewheres' instead of 'anywheres'?

Conclusion: forging coalitions

Things have to change on the economic front. The idea of a Great Reset of capitalism is widely shared by now. But a change like this will not be brought about by the market or the state. For a fundamental and sustainable change, the engagement and commitment of all parties is needed. What is crucial, then, is to initiate this process..

Our question, therefore, is: is it possible to forge coalitions – coalitions of the willing – of companies, governments, thinkers and wealthy individuals, who together want to ruminate on the reset of capitalism and the required Great Reallocation; for a new, European arrangement of economy and society? Not through pressure or incentives, but as a result of meeting and discussing, in other words, the European way? Now, a time has come for surprising connections – between conservative and liberal politics, for example, or between unions and large European corporations, between pension funds and housing associations, and between big banks and small entrepreneurs. Can we then fulfil the promise of capitalism with a human face?

[12] Much has been written about the cultural distinctiveness of Europe and 'Rhineland thinking'. The socio-economic tradition in Europe has been discussed by Robert Putnam (*Making Democracy Work* (1993)), Francis Fukuyama (*Trust* (1996)) and Michel Albert (*Capitalisme contre Capitalisme* (1991)), among others. More recently, the Dutch sociologist and philosopher Gabriël van den Brink wrote *Ruw Ontwaken uit de Neoliberale Droom en de Eigenheid van het Europese Continent* (2020).