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SCATTERED REMARKS ON "THE ECONOMY OF FRANCESCO" RESEARCH PROGRAM

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ABSTRACT

*After a brief description of the two main recent developments that undermine the full realization of a new model of market economy, the essay illustrates the most significant results so far achieved within the "Economy of Francesco" research program. In particular, the urgency of rewiring present-day finance, that has largely escaped the control of national authorities. Second, governments need to re-affirm their fundamental role in fixing the rules of the economic game. Without rules, globalization becomes (actually, has already acquired the characteristic of) a jungle. Third, the integral human development approach (*Laudato Si'*) should substitute the familiar growth strategies that unfortunately continue to be studied and taught in the vast majority of Universities. The final section of the article deals with the ways ahead, especially the urgency to abandon the disgraceful metaphor of homo oeconomicus, in order to embrace the notion of common good.*

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1. INTRODUCTION AND PURPOSE

One of the most penetrating dangers of our epoch was stamped by the 20th century writer C.S. Lewis as the "chronologically snobbery", i.e. the uncritical acceptance of anything merely because it belongs to the intellectual trends of our present. To repulse such a danger is a major purpose of the "Economy of Francesco" project. When on May 1st 2019 pope Francis launched his message to the young people all over the world, he explicitly underlined the urgency "to enter into a covenant to change today's economy and to give a soul to the economy of tomorrow". In the last couple of years, more than 2000 young economists and entrepreneurs from 120 countries have been working, notwithstanding the terrible Covid-19 pandemic, to discuss and lay down the pillars of an economy founded on the culture of care, of true value

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creation and of universal fraternity, moving beyond the still dominant throwaway mentality and the ensuing globalization of indifference".

Indeed, across the globe we are observing two parallel developments that undermine the realization of a truly humane society both within and across the nations of the world. A first one has to do with a growing concentration of wealth and, above all, a centralization of power which separates societies along old and new lines of division between the winners and losers of global integration and technological progress. The real challenge is how to move steps toward a kind of society that can ensure full inclusion for all its members, not just in terms of "compassionate conservatism" for the most disadvantaged, but in terms of a societal configuration in which people have the capability to pursue a good life.

A second development, deserving great attention, is that global capitalism, as a model of social order, is increasingly taking the characteristics of a religion, since it posits an overarching goal for human life and seeks to pursue it on the basis of a specific concept of human being. One is reminded of the prophetic essay by the philosopher Walter Benjamin (1921), where the Author clarifies that capitalism serves to satisfy the same worries, anguish, and disquiet formerly answered by religion. Today, the masking of the ideological nature of global capitalism takes place in two ways, as posited by P. Williams (2013). On the one hand, decisions with moral content are presented in technical terms (e.g.: human rights have to be limited for the sake of efficiency). On the other hand, technical arguments are rendered as genuine moral alternatives (e.g. the market versus State alternative is presented as if it were an ideological question). I do believe that it has become urgent to try to de-mask the ideological nature of the global economic order. To recall, ideology consists in labeling as "order" what is in fact a complex pattern of hierarchical, asymmetrical power relationships. The passage from ideology to idolatry is a short one.

In what follows, I will illustrate some of the most relevant results so far achieved by the various working groups associated to the project under examination.

2. WHAT CAN, HENCE SHOULD BE DONE

A first result is the unanimous recognition of the unsustainability of the still prevalent mood in economics to conceptualize the category of value – a mood according to which value is identified with market price only. Such a reductionist notion of value has major consequences for the way the economic system is structured. E.g. relational goods, care goods, commons, gratuitousness goods etc. do not enter the metric of GDP. Yet, they are essential for our flourishing. An extractivist and technocratic mentality prevents distinguishing public values – those that are collectively created by a plurality of actors – from public goods that depend on pricing efficiency for their identification. It is noteworthy what J.M. Keynes already wrote in his *Essays in persuasion:* "We shall once more value ends above means and prefer the good to the useful" (1931: 161). We should abandon our instrumentalist orientation where means get all our attention and the ends virtually none and focus on what makes people truly happy.

A major practical implication stemming from the enlargement of the value notion is that companies need to embrace a sense of purpose beyond making only profits; they have to consider the well-being of all the stakeholders. In turn, investors need to focus on the long term and to consider explicitly the social and environmental impact of their investments. Civil society organizations need to work together to address global challenges through community organizing practices. We need to understand our corporate civilization in light of the failures of mainstream thought to provide us with analytical concepts adequate to our corporate world, in which productive property is owned by abstract legal entities rather than persons. Today, enlightened business leaders are understanding that focusing only on maximizing shareholder value has no future. The proposal is to move towards the "total societal impact", according to which companies, as cognitive institutions, are considering the impact of their activities on the social and environmental dimensions as well as on the economic one. "The corporation – has written Colin Mayer – has evolved substantially over the past hundred years, but the very evolutionary processes that might have been expected to make it better suited to the world in which we live, have done exactly the opposite" (2013: 2). One factor determining this state of affairs is our own misconception about the nature and the purpose of the firm. It is unwisely reductionist to characterize it as a mere "nexus of contracts" between different parties, attributing to the firm only one purpose: profit maximization as the only admitted metric of business success. Such an approach has serious defects, the most relevant of which is its reductionism: the firm can do much more and better than solely maximizing profits. The dominant corporate governance ideology is that, to achieve superior long run economic performance, companies should maximize shareholder value (MSV). As promulgated by agency theorists, MSV is an ideology of value extraction that lacks a theory of value creation.

According to many scholars there are neither compelling legal nor economic arguments to support the shareholder myth. Indeed, contrary to what many believe, corporate law does not impose any legal duty on corporate executives to maximize profits or share prices. And there is no persuasive empirical evidence demonstrating that corporations run according to the principles of MSV perform better over time than those that are not. A company is a human community with a specific role: to produce goods and services in a way that consumes fewer resources than it produces and which are useful to people who buy them. Its moral duty is to be profitable, but not only. It has a clear responsibility towards its members, to suppliers, to clients and to society at large. These include the long term interest of future generations, including ecological sustainability and pro-socialness. Profit is a bottom line, not the exclusive criterion for judging any single business decision. Such accountability is ethical in nature. But to speak of ethics is not sufficient, since there are many different ethical stances and theories, among which to choose. Neither utilitarian ethics nor deontological ethics are up to. What is required is virtue ethics, in the Aristotelian and Thomistic sense.

A second noteworthy result is the urgency to rewiring finance, which requires that the financial accounting systems include social and environmental metrics and that the impact investing becomes a norm of behaviour. Indeed, pursuit of profit is not a problem, per se. The real problem is the incompleteness of the profit calculation, namely what is left out. And the omissions are today unbearable. Liberalized finance plays a key role in contemporary capitalism, which in turn contributes to create rising inequalities. In particular, the risk externalities stemming from the size of economic entities have to be considered. The lure for size embedded in economies of scale has important risk consequences (too big to fail) that are not taken into consideration. Sizes that are too large to manage and losses too large to bear are today a real danger. The Covid-19 outbreak has not only revealed our false securities, it has also exacerbated the deep fault lines in the global economy. We continue to record the value of what we harvest from nature, but make no matching entry for its degradation. Finance is an instrument of enormous potential for the proper functioning of economic systems. Good finance allows savings to accumulate and be used efficiently and allocated to the most profitable investments; it moves the value of assets in space and time; it creates insurance mechanisms that reduce exposure to risk; it allows meeting between those who have financial resources but no productive ideas and those who, conversely, have productive ideas but no budget. Without such a meeting the creation of economic value in a community would remain at the potential stage.

Unfortunately, the finance with which we are dealing today has largely escaped the control of the national authorities. Financial intermediaries only finance those with the money they already have (having collateral equal to or greater than the requested loan amount). The vast majority of derivative tools built to achieve potential insurance benefits are instead bought and sold in the very short term for speculative motives with the opposite and paradoxical result of putting at risk the survival of the institutions that have them in their portfolio. Asymmetric incentive systems for managers and traders (profit sharing with bonuses and stock options and no deductions in case of losses) are constructed so as to encourage them to take excessive risks which make the organizations in which they work structurally fragile and at risk of failure. A further element of dangerous instability arises from the orientation of these organizations towards extra-profit maximization at any cost (which is something different from the pursuit of a legitimate and reasonable profit) because they place the welfare of shareholders higher than that of all other stakeholders. Profit maximizing banks, in the presence of distorted incentives will always find it increasingly profitable to channel resources towards speculative trading activity or to those with margins of return greater than the cost of credit.

Never in the evolution of finance it has been so clear as in recent decades that the markets, especially where returns to scale are increasing, do not tend spontaneously to competition but to oligopoly. Indeed the gradual loosening of regulations and forms of control (such as separation between investment banking and commercial banking) have gradually led to the creation of an oligopoly of banking intermediaries that are too big to fail and too complex to be regulated. The regulators' sleep has therefore produced a serious balance of power problem for democracy itself. The 2014 report Corporate Europe1 highlights the imbalance in the balance of power between the financial lobby and those of civil society and the NGOs: finance spends

30 times more on lobbying activities than any other industrial pressure group (according to conservative estimates 123 million Euros a year with about 1700 lobbyists to the EU). The relationship between representation of financial lobbyists and representative of NGOs or trade unions in consultation groups is 95 to 0 in the stakeholder group of the ECB and 62 to 0 in the De Larosière Group on financial supervision in the European Union.

Third. Governments need to reaffirm their fundamental role in fixing the rules of the economic game in view of the common good and not of the interests of particular groups of actors. Without rules globalization becomes a jungle. The global market poses problems, but can become the solution if we change the rules of the game. It is not acceptable, neither sustainable, an economy in which the market and political powers allow privileged groups of individuals to extract a great deal of rent from everybody else. Weak competition, feeble productivity growth, high and growing inequalities, degraded democracies are failing citizens. Democracies have to cooperate among themselves to write down rules, especially in the area of international trade regime. The big question in front of all of us is that of choosing between two alternative concept of global economic governance, that D. Rodrik (2019) has called “globalization enhancing global governance” and “democracy enhancing global governance”. The basic idea underneath the second option is that if it is certainly true that globalization increases the space of negative human rights (i.e. freedom from coercion), it is even more true that it does not guarantee positive human rights (i.e. freedom of achieving human flourishing).

Wanting to do the right thing is something different from knowing the right thing to do, and that in turn is something other than actually doing the right thing. It is a specific responsibility of scholars and academic institutions not only to see the world as it is, but also to imagine the world as it might be. Mainstream economics suffers to-day of serious sins of omission: it ignores many important topics and problems when they are difficult to approach according to the standard way of doing research. We need pluralism in our Universities and research centres, since different terrains call for different vehicles. (A sailboat is useless in crossing a desert!) Hence we need to re-examine the institutions that host publications and promote young economists.

Fourth. Integral human development is meant to be transformational in that it aims to improve people lives by enhancing their capabilities. The integral human development approach (cfr. *Laudato Si’*) differs from conventional approaches to growth that suffer from paternalistic practices substituting one’s own values to those of the people one is trying to help. Such practices might favour the growth of income and riches, but do not promote authentic human development. The Economy of Francesco project calls for a new economics that treats the common goods of health, social trust, peace and dignity as general principles. It is not enough to speak only in favour of enhancing people’s capacities to live well, e.g. in terms of meeting people’s existing basic needs or increasing their ability to satisfy their existing wants. In such accounts, people’s values are understood as passive and static with respect to the development process itself. The integral human development approach aims at enhancing people's freedom to live the kinds of life they have reason to value. Its goal is that people become more truly the authors of their own lives.

It is by now a well recognized fact that market systems are consistent with many cultures, conceived as organized systems of values. In turn, the type and degree of congruence of market systems with culture is not without effects on the overall performance of the systems themselves: in general, the final outcome of market coordination will vary from culture to culture. Thus one should expect that a culture of extreme individualism will produce different results from a culture of reciprocity where individuals, although motivated also by self-interest, entertain a sense of fraternity. In the same way, a culture of cooperation will certainly produce different results, on the economic front, from a culture of extreme positional competition.

But cultures are not to be taken for granted. Cultures respond to the investment of resource sin cultural patterns. Indeed, how good the performance of an economic system is depends also on whether certain conceptions and ways of life have achieved dominance. Contrary to what it might be believed, economic phenomena have a primary interpersonal dimension. Individual behaviours are embedded in a preexisting network of social relations which cannot be thought as a mere constraint; rather, they are one of the driving factors that prompt individual goals and motivations. People's aspirations are deeply conditioned by the conventional wisdom about what makes life worth living.

Finally, great attention the Economy of Francesco research group has devoted to the severity of the ecological crisis. Much of the search for a prevention of environmental catastrophe has consisted of looking for technological means or enhancing regulation, but, apart from few exceptions, an examination of the ethical foundations of any economic policy has not been a meaningful part of economic research until recently. These technologically oriented programs rest on consequentialist ethics and have not produced satisfactory results so far. The environment cannot be saved without a change in life styles and this cannot be achieved without an ethic concerned with the limits of material consumption. Unsustainable consumption coupled with a record human population and the uses of inappropriate technologies are causally linked with the destruction of the world's sustainability and resilience. Widening inequalities of wealth and income, the world-wide disruption of the physical climate system and the loss of millions of species that sustain life are the main manifestations of unsustainability as the IPCC Report released on August 9, 2021 dramatically indicates.

Economists generally agree that the way to reduce greenhouse-gas (GHG) emissions is to tax them. But such taxes almost certainly will cause disruptive economic changes in the short run, which is why discussions of imposing them tend to run quickly into free-rider or fairness problems. For example, industrialized countries are concerned that while they work hard to reduce emissions, developing countries will keep pumping them out with abandon. But at the same time, developing countries point out that there is profound inequity in asking a country that emitted a little amount of carbon dioxide per capita to bear the same burden of advanced countries.

The least costly way to reduce global emissions would be to give every country similar incentives. But each country will want to reduce emissions in its own way – some through taxation, others through regulation. The question, then, is how to balance national-level priorities with global needs so that we can save the one world we have. The solution, recently advanced by R. Rajan (May 2021), is simple: a global carbon incentive (GCI). Every country that emits more than the global average of around five tons per capita would pay annually into a global incentive fund, with the amount calculated by multiplying the excess emissions per capita by the population and the GCI. If the GCI started at $10 per ton, the US would pay around $36 billion, and Saudi Arabia would pay $ 4.6 billion. Meanwhile countries below the global per capita average would receive a commensurate payout. This way, every country would face an effective loss of $10 per capita for every additional ton that it emits per capita, regardless of whether it started at a high, low, or average level. There would no longer be a free-rider problem, because poor countries would have the same incentives to economize on emissions as the rich ones. The GCI also would address the fairness problem. Low emitters, which are often the poorest countries and the ones most vulnerable to climatic change they did not cause, would receive a payment with which they could help their people to adapt. Moreover, the GCI would not snuff out domestic experimentation. It recognizes that what a country does domestically is its own business. Instead of levying a politically unpopular carbon tax, one country might impose prohibitive regulations on coal, another might tax energy inputs, and a third might incentivize renewables. Each one charts its own course, while the GCI supplements whatever moral incentives are already driving action at the country level.

The most powerful obstacle on the way to a new climate regime is, indeed, the inability to imagine a different economic system or even just a new balance between market and society, and between humanity and the environment. Considering change impossible is the best way to perpetuate the existing. The difficulty in setting up an effective response to climate change is linked to the difficulty of imagining another economic order in which the economy constitutes a function of society – and not viceversa –, in which humans are aware of the effects caused by the counteraction of non-humans and in which the fight against consumerism should not be interpreted through the lens of poverty.

3. WAYS AHEAD

The state of crisis which has beset the economic discipline over the last forty years is a fact commonly recognized. I do believe that it is a healthy crisis. Indeed, a crisis of foundations usually anticipates a (scientific) revolution. Until few decades ago, economics exported its rationale – maximization of an objective function under constraints – to the analysis of several human realities. A trend that has come to be known as "economic imperialism". After this attempt by economics to permeate all other sciences, a reverse process is now unfolding, as a "mainstream pluralism" emerges, with a number of diverse fields that take elements from several sciences outside economics – a "reverse imperialism" as John Davis (2011) calls it. Behavioural economics draws from psychology and neuroeconomics stems from neurosciences, while experimental economics derives from experimental natural sciences. Other new fields include happiness economics, identities economics and evolutionary economics – all associated with philosophical anthropology, ethics, evolutionary theories.

It is not difficult to understand why this is occurring. The reality studied by the economist is not fixed like that of the natural sciences. Economic facts change through time and place: problems which appear crucial in a certain period may be irrelevant in another and those that are considered important in one country can be completely ignored in another. More important than the peculiarities of the object under study are those of the subject itself. There is no doubt that the cultural background and the visions of the scientists have a strong effect on their research activities and, more generally, there is no doubt that it is the society as a whole which determines the cultural climate in which the choices available to individual scientists are provided and delimited. Society as a whole decrees the importance of the problems to be studied and decides which theories should receive the greatest attention (and finance!). E.g., some people consider an unemployment rate of 5 per cent as worrying, while others believe a 10 per cent rate is "natural".

A second remark. Modern economics is anti-teleological. Teleology is no longer an ontological order. It is a by product of causal necessity. The consequence is that economic theory tends to ignore anything that is not objectively observable in human conduct. Emotions, beliefs, values, symbolic representations, are all thought to be of little significance in understanding economic actions. Only the results of actions are believed to be of interest to economic science. This philosophical position is often justified by the view that the economic agent reigns sovereign in a market economy and is therefore free to express any type of preference of which the economist may be unaware. From this derives an unjustified minimalist justification of consequentialism as an ethical doctrine. Unjustified since it is postulated, not argued. It is a construction that refers to a precise vision of the world, that of axiological individualism. This is the true philosophical basis on which the *homo oeconomicus* artifice rests. Nothing like that occurs in natural sciences. This is a major evidence of the epistemic fallacy: the reduction of an ontological premise to an epistemological assumption.

The awakening of scientific courage is comparable to intellectual migration. Indeed, it appears to be moved by push and pull forces: by dissatisfaction with the existing scientific system and by the hope that opening up to a wider philosophical horizon will fortify research. Mainstream economics tends to ignore anything that is not objectively observable in human conduct – emotions, beliefs, values, symbolic representations. Only the results of action are believed to be of interest to economic science. Such a philosophical stance is justified by the view that the economic agent reigns sovereign in a market economy and is therefore free to express any type of preference or beliefs. Hence there is no need to worry about the motivations or the dispositions underlying the agent's choices. However, this is not the route taken by those working at the Economy of Francesco project. This is so since what we urgently need is a new anthropological orientation within economics, capable of enlarging the scope of economic research in order to make it more relevant for the analysis both of policy means and of policy ends. In fact what is called for today is a theoretical set-up by means of which one can explain how cultural factors and economic choices interact and how this interaction feeds back on the ongoing social relations. The key notion in this respect is that of coevolutionary dynamics: individual behaviours and social norms evolve jointly as micro and macro changes in the latter prompt adjustments in the former and viceversa. This is clearly a very complex and far-reaching scientific endevour, which the most recent economic literature has just began to explore. The various attempts to demonstrate the self-sufficiency of the categories of economic discourse do not help to expand its grip on reality. As it is well known, during the last century, mainstream economic theory argued for the divorce of economic judgement from moral and political philosophy. This divorce was supported by the idea that economics should only be concerned with means and not with ends, which has rendered the discipline of little use for the understanding of social processes and for the analysis of structural change.

I do not wish to hide the difficulties lurking in the practical implementation of a cultural project targeted at nothing less than a "paradigm shift" in economic theory and a new model of economic development. As in all human endevours, it would be naif to imagine that certain changes do not create conflict. The differences of vision and the interests at stake are enormous. It is no accident that a kind of widespread anguish about the future is running throughout society today. Some people and certain pressure groups are exploiting this anguish as a political tool, deriving from it, depending upon the circumstances, either a market-centered Machiavellianism or a State-centered Machiavellinism. It is precisely against this neo-Machiavellian culture and its underlying ethical relativism that those who participate to the Economy of Francesco research program are putting up a fight.

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