What Next for Global Capitalism?

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This year's Davos conclave has come and gone. We are no wiser for that public forum as to the reasons why excess lending on American sub-prime mortgages has led to a severe global recession or as to what the governments of the world can do to quickly revive global economic growth.

Something has gone very wrong with our economic institutions; they need restructuring. Only sustainable premises about optimal market performance should guide such institution building.

In 1989 Communism died; then, in 2008, Wall Street Capitalism also died. Each system created the conditions for its own collapse. Each system remained faithful to its core principle when its vision was wrong. Choosing the wrong course led to extinction.

Communism did not empower individuals and because extinct for that reason.

Wall Street Capitalism did not restrain individuals and died for that different reason.

Without Communism and Wall Street as viable economic systems, we are left to pursue a course of moderation in economic growth.

The best alternative would be a system where individuals are both empowered and restrained - empowered to grow and thrive, to invent and built, to love and cry – but restrained from exploiting others and harming the public commons.

Our moral dignity as individuals is the foundation for justice and gives us our respective claims to personal authority, liberty, and private property. Yet the moral dignity of others constrains our use of that very liberty we claim for ourselves. Others have the same claim to freedom that we do, which claims we may not always ignore.

We hold our individual rights and opportunities less as unfettered prerogatives and more as privileges contingent on our recognition of the moral dignity of others. We are free within the circumference of just restraints but not beyond those limits.

The equilibrium between freedom and restraint is ethics. Where we act ethically, we restrain our powers out of regard for the consequences for others.

In capitalism, acting ethically balances our self-interest with concern for the common good.

But reliance on ethics is not always prudent. There are those who need more coercive external constraints. Thus, some legal restraints do have their proper place in our lives, but as the experience of Communism demonstrated with great horror and suffering, government dictates taken to excess destroy happiness and prosperity.

While governments restrain, markets are needed to empower us with very real freedoms. Private markets, not governments, create wealth and provide opportunity for self-expression suitable to our dignity as individuals. But markets have difficulty in keeping sordid individualism from running rampant. Having no restraints precipitates uncivilized disregard for others.

Markets need some form of management to avoid the excesses that have given us this global recession. The needed management is not so much of markets themselves, but of the individuals who enter markets seeking personal advancement.

Corporate social responsibility or CSR embodied in market choices provides a formula for harmonizing the constructive and beneficial outcomes of individual enterprise with the interests of others.

Under CSR practices, firms and individuals are constrained to internalize the costs of their intrusions into the public commons. Their resulting behaviors are thus made more moderate, but without loss of entrepreneurial and creative energies.

Under operational CSR guidelines, free market risk and reward are kept in a more sustainable balance.

CSR is a decision-making process for businesses. It requires them to consider the quality of their relationships with key stakeholders: customers, employees, owners, creditors, suppliers, the environment, communities. It asks them to measure and enhance those relationships on a continuous, sustainable basis.

Doing so does not detract from the financial value of the business. To the contrary, these stakeholder relationships are intangible assets of the firm that, when cultivated, contribute to its capitalization value and, when ignored, detract from that value.

Customers, for example, provide the income that all firms need for their profits. Loss of customers is always a prelude to economic distress. The same dependency applies to the other stakeholders as well. In the post-industrial age, higher returns are earned by well-educated, loyal and highly motivated employees than from employees with lesser skills and dedication. A good reputation will lead to a lower cost of capital and secure access to working capital.

Business conducted fairly has a longer shelf life and is more valuable to owners as well as to society. The wages of hubris for Bear Stearns, Lehman Brothers, Citibank, Merrill Lynch, Morgan Stanley, even Goldman Sachs, have been toxic. Their market power is gone. Bear Stearns and Lehman are no more. Kidder Peabody and Drexel Burnham died that way in previous rounds of “irrational exuberance” in financial planning.

These firms failed to apply CSR principles to their business models.

CSR is far more than charity or the noblesse oblige of those with wealth and power; it is the way forward for a sustainable global economic order.

The modern CSR dynamic of finding equilibrium between a promethean hubris of self-assertion and subjugation under invasive government supervision was advocated by Aristotle. In his Nichomean Ethics, he defined ethics as the mean between extremes of conduct.

Similarly, Confucius in his elevation of ethical standards of reciprocity, humaneness, and propriety sought a mean between unrestrained self-actualization and disempowering, servile submission to others.

Just as the self is ultimately found in relation with others, business finds its best and highest value by engaging in sound practices of good stakeholder management. CSR can succeed where both Communism and Wall Street failed.