EARTH CAPITALISM
Creating a New Civilization through a Responsible Market Economy

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With a foreword by Bill Gates
Eco-Social Markets, a Global Marshall Plan and Social Entrepreneurs

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Introduction: The Challenges Ahead

The world faces great difficulties concerning the environment, the climate issue, the opening gap between rich and poor, imbalances between cultures, the world financial system and questions of war and peace. And obviously, free markets are not the answer to the world’s problems. Consequently, new worldwide initiatives, such as the Eco-social Forum of Europe, the Global Economic Network, the Coalition for the Global Commons and Mohammad Yunus’ initiative for social enterprises are urgently needed to tackle the un-desirable global developments, which also become apparent in the insufficient implementation of the UN Millennium Development Goals. It is also very helpful that The Goi Peace Foundation operates in this respect in its many networked activities.

I. The Eco-social Market Economy

1. 1. The Eco-social Market Paradigm

The Eco-social Forum of Europe, the Club of Rome, the Global Marshall Plan Initiative and others since long argue that a reasonable future for humankind needs a revolution-evolution in Global Governance. Elements are climate justice, incorporation of external effects via prices into the world economy system, so that “prices tell the truth” etc. Only then can enterprises and entrepreneurs really fulfil their potential for a better world. Protection of the environment and blocking of slave-type child labour must become a part of WTO and the world financial system.
At the very least, we need governmentally controlled labelling systems that tell consumers what they want to know about the rules and conditions under which products were produced. It is often not adequate to compare goods and services (only) at the level of function—as is the WTO’s credo. Often, the processes, under which goods and services have been created, are of similar importance as the function.

Overall, the task is to provide the globalized economy with an adequate global regime for the markets, promoting world peace, justice and sustainability and the realization of an open society. Such a regime does not exist today, on the contrary. Needed, in a long-term perspective, is a worldwide Eco-Social Market Economy, linking markets and competition with high social, cultural and ecological standards for the welfare of all humans. Key to a consensus on such standards, and to overcome global poverty at the same time, are co-financing measures supplied by the rich countries in favour of the developing countries, supported by an adequate regulatory framework. In return, as part of a contract, established by all partners voluntarily, developing countries would adopt these standards, despite the concomitant loss of competitive advantages. Better standards imply in particular better governance structures in all countries, and improve local government. This approach reflects the reasoning behind the EU enlargement processes, the successful Montreal Protocol for the protection of the world’s ozone layer, but also that behind the US Marshall Plan for Europe after World War II.

1.2. A Major Challenge—The Ethical Question

The Eco-Social Market Economy model and the Global Marshall Plan/Planetary Contract approach are both based on a clear ethical foundation. This is the world ethos position, common to all great religions, to humanism and also present in the UN Earth Charter. Two principles are basic, which can both be deduced from the Golden Rule, namely the principle (1) to care for the environment and the world’s resource base and keep it intact and (2) to take care for the dignity of all humans. These principles immediately translate into corresponding requirements concerning the governance of companies, which are today reflected in concepts such as ethics for business or corporate social responsibility (CSR). However, voluntary business codes, as important as they are, are usually not sufficient to address global needs. Internationally agreed upon rules, transparency and compliance mechanisms are key. This is where an eco-social market approach and business ethics meet. Because under

suitable frameworks, markets will reward, what is ethically desirable. We have to work harder to achieve this situation.

II. The Global Marshall Plan Initiative

II. 1. The Conceptional Approach

A Global Marshall Plan/Planetary Contract represents an intermediate step towards a worldwide Eco-social Market Economy. According to authoritative sources, 980 Billion US-Dollars will be needed on top of the current international development aid until 2015 to reach the UN Millennium Development Goals. Moreover, the usage of these funds must follow different mechanisms than currently applied, and in close interaction with the world’s civil society. Some countries have already made pledges, which reduce the amount of money needed additionally to about 860 Billion US-Dollars from 2006. Under an adequate regime, and focusing on developing countries that are willing to meet the requirements mentioned, this sum could be raised from 2008 through instruments such as Special Drawing Rights of the International Monetary Fund, a worldwide levy on financial transactions (Tobin tax), a worldwide levy on trade (Terra tax), a worldwide levy on kerosene, a reasonable trade system for CO₂ emission rights, adequate debt relief measures for the poorest countries, insolvency laws for states and, finally, the establishment of an International Financial Facility as proposed by the former British Chancellor of the Exchequer Gordon Brown.

II. 2. New Forms of Implementation

As important as raising the funds are new forms of implementing the goals, in particular: financing the implementation of the UN Millennium Development Goals on a project basis. The effective allocation of funds for self-directed ways of development is maybe the most difficult aspect of a Global Marshall Plan. The responsible bodies for the implementation could be the World Bank and the United Nations Development Program (UNDP) as well as other UN organizations, such as the UNEP environmental programmes, UNESCO or the United Nations Population Fund (UNFPA). On their part, these organizations should rely more on local initiatives and NGOs than they do today, and support adapted technologies, measures to increase local welfare and private initiatives
for development. The latter should compete for co-financing funds, allocated in selection procedures controlled by an independent jury. Besides satisfying basic needs, financial aid should be aimed at empowerment, capacity building and ownership.

Practical experience shows that self-directed, self-assured and responsible development is best achieved when participation, education and enforcing the role of women are promoted. Guiding principles for the allocation of funds are subsidiary (bottom-up), transparency and control of financial fluxes to reduce corruption. Concrete examples for accordant fund allocation are micro financing and microcredit or the partnership-helper model (help for self-help). In this respect, there is a close cooperation between the Global Marshall Plan Initiative and the Global Economic Network with economist and Nobel laureate Muhammad Yunus, creator of the Grameen Bank. Muhammad Yunus is a member of the presidency of the Global Economic Network. Muhammad Yunus’ new initiative for social entrepreneurs is also in the focus of the Global Economic Network.

Also, there is then pressure towards good governance within countries, making sure all people will have a decent education and sufficient health care service. All this will significantly increase the power of people to help themselves. This will also be supported with the significantly increased level of co-financing of about $100 billion a year. In the concept of the Global Marshall Plan this money not just goes to governments, but to a great extend goes into small and medium-sized enterprises, into microcredits, into regional projects and it goes into improving the ownership situation of poor people. And all use of such funds will fall under strict compliance rules. So, all in all, the Global Marshall Plan will significantly and permanently improve the situation of the poorest.

II. 3. What Do We Hope For?—The Double Factor 10 Perspective

Similar to Europe’s economic miracle after World War II, the eco-social reasoning behind a Global Marshall Plan/Planetary Contract will create a gigantic global departure in the right direction, analogous to the EU enlargement processes: economic development, environmental protection, social balance and cultural balance are all promoted simultaneously.

The developing part of the globe closes the gap, and positive growth effects show everywhere. The future formula 10→4:34 indicates that within the next 50 to 100 years, a ten-fold increase of the global gross national product is achievable. At the same time taking care for an efficient environmental protection and the realization of a sustainable development. The effect of a worldwide investment program in the scope required would, in a relative perspective, be comparable to the effect of constructing the transcontinental railway system in the US at its time, and release unimagined powers for a development in the right direction.

While growth rates in the rich world may average between 1 and 2% per annum for about 50-70 years, they will reach 5 to 7% in the poorer parts of the world. The rich North and the poor South will profit equally from the resulting boom. At the same time, the imposed social and ecological standards will contain the current polarization within both the rich and the poorer countries. Thus, more global balance is compatible with significantly increased global wealth and environmental protection and does not entail less social balance within states.

III. Social Enterprises and Social Entrepreneurs—
Some Considerations

III. 1. Social Enterprises—A New Initiative by Muhammad Yunus

On the way to a double factor 10, a wealthier and more balanced, more peaceful globe in peace with nature and cultures, entrepreneurs and enterprises will have a central role to play. Muhammad Yunus is now promoting this issue and offering new perspectives. Social enterprises should address social requirements, while entrepreneurs today generally follow other intentions. Certainly, it is encouraging that The Gopi Peace Foundation also networks into this direction. And the Eco-social Forum Europe, Global Economic Network, Global Marshall Plan Initiative have these approaches within their spectrum and think that proper frameworks will promote this. However, it is an intellectual challenge to precisely specify and argue for the specific characteristics of social enterprises.

There has to be a very precise clarification of the differences to well-established forms of organizations such as co-operatives, foundations and non-profit organizations.

In particular, it is important, but might be difficult to block attempts to camouflage the concept.

The new initiative by Muhammad Yunus is particularly important. It comes at a crucial moment in time. Presently, market fundamentalists are trying to consolidate their ideas on the nature, aims and shareholder-
value oriented goals of enterprises and therefore the market via regulative respectively deregulative interventions. Of central importance is the guarantee (better to say "systemic pressure" conditions) of a high return on equity in the sense of a "law of nature," enforced by politics and frameworks. With this in mind, some market fundamentalists presently argue even against co-operatives as valid structures of economic activities. Eventually, they might even go against foundations.

For this and other reasons, it is important to put something against their line of argumentation, which could be abbreviated as TINA (There Is No Alternative). Social enterprises/social entrepreneurs can be an important factor in this "game" of arguments.

III. 2. Relations of Muhammad Yunus' New Initiative to Other Initiatives and Concepts

There already exists a global Initiative for socially oriented enterprises, which is a positive force. This initiative follows a more relaxed definition of socially oriented enterprises than Muhammad Yunus is arguing for. So social enterprises/social entrepreneurs in Yunus' sense form—in his own words—a subset of what the initiative for socially oriented enterprises is arguing for.

There is also a relation between co-operatives, in particular those co-operatives which pay no or nearly no return on equity, and social enterprises in the sense of Muhammad Yunus. A difference may be that the social purpose, which co-operatives are following, often has to do with the interests of the members of the co-operative. Often, but not always, those members are also the beneficiaries (however, most often not the only ones) of what the co-operative is doing. An interesting case would be a co-operative (of "richer" entrepreneurs) organized to build a bridge over a river that serves for "poor" people (but for their own companies' activities as well) and later would finance itself from tolls for using that bridge. Ownership here is with the co-operative. Should this be regarded as a social enterprise, particularly in the case that the income from tolls is just sufficient to maintain the bridge? In this case, there is no return on equity and there is no paying back of private equity that forms the basis for this co-operative.

In countries such as Germany, the public side often organizes certain socially important activities, such as local transportation or water and energy supply, via state or town-owned enterprises.

III. 3. Return on Equity—A Critical Issue

Observers have some questions seeing that Muhammad Yunus does not allow any return on equity for social enterprises. No return on equity means that, first, there is no compensation for inflation and, second, there is no compensation with regard to possible returns on alternative investments like supplying money on assets free of risks in a bank. Third, there is no compensation for risk taking, keeping in mind that starting a social enterprise involves risk. Not considering these three types of payments on equity of social enterprises means that social enterprises are, in a sense, heavily subsidised businesses (by its shareholders). If everything works fine, a payback of private equity put into the business after some years is offered, if profits of the social enterprise allow to do this. These limitations of payback of equity make the argumentation for his concept somewhat difficult.

Muhammad Yunus asks for tax advantages for social enterprises, because they serve a public cause. There are good arguments in this direction, but public debate will be difficult. This idea will find heavy opposition, as we saw it for instance within the European Union concerning the Sparkassen sector, particularly in Germany. The arguments, which are all biased, always go into the direction of economic inefficiency and unfair competition, due to a special treatment of a restricted segment of the market.

There also is a risk that social enterprises could be placed as a kind of second-class enterprise category to serve second-class people in a world of "brazilianisation." Currently, a major challenge is a fair and balanced participation of all people in success to goods and services that can be produced "sustainably" from limited resources. Today most people do only have a very limited access to needed resources and wealth produced. A concept of social enterprises could, in the worst case, institutionalize a class society via companies dedicated to serve the needs of the poor part of the world, while "the other companies" provide goods and services for the wealthy people.

III. 4. How to Deal with Sophisticated Financial Constructs

Muhammad Yunus' idea of social entrepreneurs would be strongest if social enterprises could be constructed in a stronger way. They should be to the highest degree possible, like other enterprises or other entrepreneurs. Besides the strict application of social and ecological standards
widely agreed, there should only be one difference: Money that today is
taken out of companies as a surplus beyond compensation of equity for
inflation, interest on risk-free assets, and compensation for risk taking
of private equity, should remain in the company to be used for dedicated
social purposes. Whether one wants additional help by the government
concerning taxes and subsidies would then need special consideration
and argumentation.

This fair return-oriented approach to social enterprises can be argued
for under any circumstances. But what is more important, the possibility
to hide additional payments of returns on equity by using tricky forms
of financing has to be impossible. One should take care that “normal”
enterprises cannot camouflage themselves as social enterprises.

Clever actors may finance social enterprises mainly on debt instead
on equity (e.g., by emitting debt obligations that are traded anonymously
via the capital market) as is known from strategies today to avoid paying
taxes in countries such as Germany. The same structure could be
used here to have a social enterprise in the sense of Yunus and still to
get returns on equity through the right kind of financial constructions.
This could also be done e.g. by buying expensive services or goods from
other companies of the shareholders (this has been a usual strategy of
hedge funds).

Either one finds a way to make such constructions impossible (a hard
job, because tax authorities have the same problem and did not yet solve
it) or one has to live with the situation that clever actors can force condi-
tions into a social enterprise, which, on a material level, one does not
want to accept in his definition. This is a problem from a logical point
of view. Therefore, it should be carefully analyzed as to avoid misuse
of the important concept of social enterprises.

Conclusion

A world in trouble needs bold new initiatives. The economy has a
major role to play in this. The eco-social market philosophy gives new
perspectives in comparison with market fundamentalism and Manchester
Capitalism. It is the better system. The Global Marshall Plan is a step in
this direction. Social enterprises and social entrepreneurs fit well into
this world of thinking, and the activities of The Goi Peace Foundation
as well.