Shared Value and Virtuous Practice: How finance and technology can serve the common good

Adrian Pabst

Catholic Social Thought and cognate traditions in Anglicanism and Eastern Orthodoxy enjoin us to read the 'signs of the times' – hence the title of the first social encyclical *Rerum Novarum* in 1891. So what are the signs of our times? What are the new things at the dawn of the 2020s? Besides technological disruption, we are also witnessing political turmoil, economic and dislocation as well as ecological devastation. None of these is new but their coincidence makes this an age of anger and upheaval not seen for many decades – perhaps comparable to the late nineteenth century and the first wave of globalisation.

Nowadays society is freer but more fragmented. The economy has grown richer but more unequal in terms of assets, debt and precarious jobs. We are seeing a lack of competition and corporate scandals that rip off consumers or destroy the wealth of investors. As John Kay has argued, global finance uses other people's money to trade almost exclusively with itself: taking deposits and lending to industry accounts for only 3 per cent of assets on the balance sheets of UK banks, while international foreign exchange trading is nearly 100 times the volume of commerce in goods and services.[1] In its current configuration, the financial system is not serving well the people, the places they inhabit and the purposes they purse.

Ten years after the financial crisis, the prevailing economic system faces its worst crisis of legitimacy since the Great Depression. To many people, it looks unproductive and immoral. The real economy is seeing a concentration of wealth and a commodification of everyday existence – labour, land and life. People, goods and services are seen overridingly as items for sale on the market, reducible to their monetary value.

[1] John Kay, *Other People's Money: Masters of the Universe or Servants of the People?* (London: Profile, 2015), pp. 80–140.

Western liberal market democracy, especially in its Anglo-Saxon variety, is based on the principle of open, competitive markets that generate prosperity for the people, yet it often enforces cartels and enriches top executives and institutional shareholders. State corporations in the East and tech platforms in the West extract rents on account of their dominant position.[2] For all their innovation, parts of Silicon Valley and Wall Street are the symbols of a new oligarchy that celebrates greed and practices usury.

The immorality of many business practices is often the very thing that renders them unworkable. It increasingly appears to be the case that sometimes self-interested behaviour just serves the self-interested individual and does not serve society at large, not even economically. Moreover, it often only serves business interest in the very short term. And now it even fails in the short term, as with the collapse in the value of bank shares.

Far from being necessary or inescapable, this model is entirely contingent and avoidable – a logic only of a certain conception of the economy based on three assumptions. The first assumption is that abstracting money from the real economy, from the production of real value, is inevitable. As a result, financial transactions are increasingly disembedded from relationships of production and from the exchange of goods.

The second assumption is that the wellbeing of the corporate firm takes second place to that of the individuals who run it, and the shareholders who benefit from – rather than all the stakeholders, including workers, consumers, suppliers and communities where businesses operate. The third assumption is that resources are naturally scarce and that people are by nature selfish and greedy. Therefore free markets are the best way to balance individual self-interest and central states are the best way to regulate excessive behaviour that the market might not correct.

[2] See Adrian Pabst, *The Demons of Liberal Democracy* (Cambridge: Polity, 2019), pp. 34-72.

Catholic Social Thought and Christian social teaching suggest that none of these assumptions hold true. Starting with the third assumption: people are not naturally selfish and greedy, pursuing abstract wealth and domination over others. Rather, they seek mutual recognition – an acknowledgement of how their talents and roles can contribute to the economy and society. Neo-classical economics and 'public choice theory' go wrong precisely when they define people as primarily rational, utility-maximising creatures. Instead, most people want a share of the good life and the common good. We can conceptualise the common good as an ordering of relationships in a way that holds in balance individual fulfilment with mutual flourishing, based on human dignity and the equality of all persons.

Connected with that is the nature of enterprise. Business is a social body, not a set of purely economic interactions based on contractual arrangements. Trust and cooperation are vital for the good functioning – the pursuit of both profit and social purpose. The firm is a partnership between owners, managers, workers, consumers and suppliers. Good practice can drive out bad in a tendency that is actually more stable and more profitable at one and the same time. In concrete terms, this means incentivising and rewarding excellence and ethos within a business. It also means inducing other firms to compete in terms of quality of produce, fairness of pricing and humane treatment of workers and customers. And a crucial aspect to 'quality of produce' is the fact that *real* goods (including 'relational goods' that we can only enjoy in common) are less subject to the law of diminishing returns.

This takes us back to the first assumption – abstracting money from the real, material economy. Instead, the task is to re-embed money in activities of production and exchange that generate value. For finance, this means that the lending of money needs to be tied as much as possible to real investment. It also means that banks should be made stakeholders and therefore risk-carriers in the enterprises that they fund. In line with the principle of reciprocity, a more ethical economy would establish the sharing of risk and reward in as many financial transactions as possible – including house mortgages – between lenders and borrowers, investors and owners, shareholders and managers, employers and employees.

Lenders of money, from high street banks to building societies, should as much as possible be regarded as investors in the businesses they purport to back: as part-liable for the risks incurred by borrowers on the one hand, and also as co-partners and advisors in the enterprises that borrowers undertake, on the other. This would involve a mutualisation of banking and real estate financing wherever possible. A loss of excessive economic power would be balanced for such bodies by an increase in social power, provided this is linked to an increased exercise of social responsibility.

Often this is addressed in terms of Corporate Social Responsibility (CSR). Drawing on Catholic Social Thought, we can do a lot better than CSR. Too often CSR is little more than corporate philanthropy that makes little difference to business organisation, strategy or core activities. Here the notion of 'shared value' is instructive.[3] Michael Porter, a long-term advocate of CSR, now proposes 'shared value'. Shared value is about the pursuit of long-term stable and steadily augmenting profit, which *requires*, for strictly economic reasons, an attention to mutual benefit.

Corporate contributions to social and ecological costs should not, therefore, be thought of as 'coming from without' and as *constraining* business, but rather as naturally embraceable by business and for purely business reasons. On this reasoning, one should be able to persuade businesses to 'cost in' the social and environmental demands that their economic projects make, or to compensate for the social and ecological deficits that they tend to cause, without any need either for any draconian legal constraint or for fiscal encouragement.

[3] Michael E. Porter and Mark R. Crane, 'Creating Shared Value', *Harvard Business Review*, January–February 2011, pp. 2-17.

At the heart of our discussion is how best to deal with bad practice. From the perspective of 'shared value', the economic purpose of shared prosperity can transform bad practice into good practice. If so, then ethical purpose is compatible with profit. But is that sufficient? While the ethical runs *with* and not against long-term business interests, it must still be pursued for its own sake if it is more generally to prevail. This means that 'shared value' must also combine virtue with profit, beyond the norms of mainstream economics. Unless virtue is embraced *as* virtue, and not simply for reasons of self-interest, it is unlikely to be embraced at all. If a good working and trading ethos is pursued for its own sake, then ethical practitioners will embrace market success because it can extend a shared human flourishing.

Without virtue, human vice will prevail. As the early twentieth-century Anglican historian R.H. Tawney argued, individual interest unchecked by a strong culture of virtue risked turning the sin of greed into an engine of insatiable acquisitiveness[4] – a prophetic warning we would do well to heed.

Virtue translates into practice of thrift, sobriety, hard work, education and a determination to delay gratification in favour of investment. These virtues encourage, and are nurtured by, a sense of proper stewardship and a responsible sharing of risks, rewards and resources. Concretely, this can provide a better balance of interests between capital and labour, with employers caring about their employees and establishing new schemes for health and education, including apprenticeships.

Key to ethical business is a commitment to fair prices. That is as much to do with transparency, which was missing from barter trade, as with the commitment to good quality rather than cut-throat competition in a race to the bottom. The pursuit of shared prosperity

[4] R.H. Tawney, *The Acquisitive Society* (London: Bell, 1921) and *Religion and the Rise of Capitalism* (New Brunswick: Transaction, 1998), pp. 79-132.

benefits both the business and its employees. Customers know they are not being ripped off and suppliers don’t have to haggle over prices.

Of equal importance is the approach to workers. It’s worth remembering some examples from history – including from the Quaker tradition. The Cadbury brothers, for example, built the village of Bournville on the south side of Birmingham for their employees. This model of urban development came with schools, parks and leisure facilities for workers and their families. The Cadbury firm was also one of the pioneers of pension provisions and new initiatives such as providing a staff canteen. Knowing that a healthy workforce would be more productive and stable, Cadbury employed company dentists and doctors before the creation of the NHS. “The welfare of employer and employed is not antagonistic, but complementary and inclusive,” so said Cadbury in 1912. “Each position brings its duties and its rights”. Rather than a collection of individuals focused on their separate advancement, companies like Cadbury were more like corporate bodies committed to the mutual flourishing of their members.

Three conclusions. One is the importance of balancing individual responsibility with a sense of fraternity. The ethos of self-reliance is bound up with the emphasis on fraternal help. Ethical enterprise is just as much a space for fraternal relations as friendly societies in the past or charities nowadays.

The other conclusion is the provision of services that help people to combine their work with family life. This includes more generous arrangements for maternity and paternity leave, support for childcare as well as flexible working hours. Instead of waiting for the state to legislate, businesses could and should increase the ways they support working families.

Final conclusion: globalisation and the digital age are changing the context, but the fundamental task remains unchanged – the building of a just economic and social settlement that combines new sources of prosperity with the protection of people in their families, communities and workplaces. There is much to learn from Christian practices anchored in the dignity of labour and the sacred character of both land and life.