ETHICS OF FINANCIAL MARKETS
THE ROLE OF CAPITAL IN THE PROCESS OF CREATIVE DESTRUCTION

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Integrative Economic Ethics

- (Economic) ethics is no issue among others.
- There is no such thing as ethical neutrality. There is no beyond of right and wrong.
- The economy is a field of social interaction — and the question always is: Are the social interrelationships to be regarded as fair?
- The problem with economics is that it just gives a picture of current market forces (implicit economism).
- An mere apology of the current state of affairs is ethics as well — but a bad ethics.
The 2008 Financial Crisis

- "Le laissez-faire, c’est fini." Nicolas Sarkozy (2008)

- "The economic textbooks served as the scripts of the current crisis." FAZ (08.04.2009)

- "Germany needs to court entrepreneurial capital, as only thus innovation, growth and jobs are secured." Hans-Werner Sinn (2005)
  - From 2001-2007, 77% of economic growth in Germany went to capital. VGR
  - In 2009, HNWI's assets increased by 19% to USD 39 trillion. World Wealth Report 2009
The courting of capital

- "Give way to employment." (Horst Köhler) = Give way to capital.
- Motto: The more capital there is, the more growth and employment will be.
- "It was our job to unfreeze the American banking system if we wanted the economy to function. This required that we keep rates modestly low." Alan Greenspan (2007)
- "One of the most important conditions for higher growth and employment is the international competitiveness of Germany as a financial centre… [This works] to the benefit of all market participants … [This includes] expanding the securitisation market…" Coalition Agreement between the CDU, CSU and SPD (2005)
Creative Destruction

- How growth and employment is brought about?
- The layman's answer: by the "creation of jobs".
- Win-Win for employees and capital.
- But: It is not possible to generate a new income stream without destroying another one.
- The market = exchange ("creation") and competition ("destruction").
- Not till those whose jobs are destroyed manage to find a new job there is growth.
"Economic progress has two legs. One is eliminating jobs with new technologies, the other finding new tasks for workers... The future of the economy rests on the country’s willingness to endure the pain of job destructions, as well as find ways to facilitate job creations... We would better measure economic success by the elimination of jobs than by their creation."

Two ethical key questions

1. Telological-ethical question: Is it still worthwhile to endure the stress of competition? Does competition still serve the good life?

2. Deontological-ethical question: To what degree are those who are relatively more competitive and relatively more willing to compete – and capital! – permitted to force all others to live an ever more competitive life?

"The competitive market economy is" NOT "an arrangement for the good of the general public, the consumers" (Homann/Blome-Drees, 1992, p. 26) but for the good of the „entrepreneurial“ way of life – and for capital.
The role of capital in the process of creative destruction

- In effect, capital pits jobs against jobs.
- Without capital, there would be "creative destruction" as well – but on a much slower path.
- Capital is the real economy's whip.
  - Indirectly: Financing "pioneer entrepreneurs" and bridging the time gap between "innovation" and (later) revenues.
  - Directly: Restructuring, cost reduction, outsourcing, increased work load. – The new radicalization in management. – "Value creation should be established as the paramount objective of all management endeavours. There still are huge potentials for setting radical cuts in an unprejudiced manner." McKinsey, 2001 – The elimination of outer-market values from the economy.
Two sources of capital income

1. Portions of the economic value created (dividends, interests).
   - Is this to be called "value creation" or "value absorption"?

2. Transfers of assets from other [stupid?] investors (capital gains).
   - Zero-sum game among investors.
   - Giving it the appearance of a positive-sum game = the bubble economy (asset price inflation).
"The Dollar Tsunami" (Charles R. Morris)

Völlig losgelöst?
Entwicklung von Bruttosozialprodukt und Finanzvermögen weltweit, in Billionen Dollar

- GDP World (1980-2008): +600%
- Global financial assets (1980-2008): +1500%

ver.di Bundesvorstand Bereich Wirtschaftspolitik
What does this mean?

1. This is not a bubble.
   a. Capital imposes ever higher pressures on the real economy in order to create real growth.
   b. Or there is even more flow of income from the real economy to capital (and capital service providers).

2. This is a bubble.
   - The "global pool of money" increased from 36 trillion in 2000 to 70 trillion in 2007. "And the world was not ready for all this money. There's twice as much money looking for investments, but there are not twice as many good investments." The Giant Pool of Money, Chicago Public Radio, Originally aired 05.09.2008.
Conclusions

- Bubble or no bubble – this is a normative question.

- Proposition: The real economy (the taxpayer included) is not able – and should not be forced – to create the economic values (the profits) corresponding to "the giant pool of money".

- "In the last decade, banks, insurance companies, Wall Street as well as Main Street, we all have lured ourselves into believing that we were richer. But this wealth was just the result of a series of self-fulfilling bubbles... One has to accept the need for an abrupt deflation of the financial sphere." Sornette, D.: Short- and long-term propositions for the financial crisis: back to the fundamentals, 13.01.2009.
Proposals

- (Re-)taxing capital.
- "De-capitalising" the enterprise. — Dethroning the "profit principle". — Re-embedding the market in values of fairness and meaningful occupation. — Revitalising a moderated, social market economy.
  - "There‘s one thing securities analysts will never understand, and that‘s business. They believe that companies make money. Companies make shoes." Peter Drucker (1998)