

# RE-EXAMINING THE RELATIONSHIP BETWEEN ETHICS AND THE ECONOMY:

## Some Explanatory Notes for Action

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### A THIRST FOR ETHICS IN THE ECONOMY

The Edelman Trust Barometer Poll 2011, conducted among the richest 25% of the population of 23 countries on five continents and with a total sample of 5,075 interviewees, produced clear confirmation of the widespread social demand for ethics in the economy that is now widespread in much of the world.

The poll asked the socio-economic elite interviewed, who are very influential in their respective countries, “Should companies create value for shareholders aligned with the interests of society even when that means sacrificing the value of the shares?” The overwhelming response was “yes.” Replying affirmatively as follows were: Germany (91%), Great Britain (89%), China (89%), United States (85%), Mexico (85%), Canada (82%), the Netherlands (81%), Sweden (81%), India (74%), France (72%) and Spain (71%).

As we see, the world’s socio-economic elite now firmly back the idea of corporate social responsibility. But they are also very exigent. In their opinion isolated improvements are not sufficient. Rather, they believe that an entirely new concept of the role of companies in the 21<sup>st</sup> century is

needed, in which the common good is not an objective subject to compromise.

The same thirst for ethics is reflected in the controversy created by one of the most successful financiers of the last fifty years, Warren Buffett, which has caused a worldwide stir. In his article in *The New York Times* (14/8/2011), "Stop Coddling the Super-Rich," Buffett calls for the "shared sacrifices" required by the state of the American economy to be made, and therefore the taxes on the mega-rich like him to be raised. He states that the percentage of taxes paid by him last year on his taxable income was 17.4%, "a lower percentage than was paid by any of the other 20 people in our office. Their tax burdens ranged from 33% to 41% and averaged 36%." Buffet says that this is unfair and suggests that the tax rate for the super rich should be raised. He rejects the argument that this could reduce investment: "I have worked with investors for 60 years and I have yet to see anyone ... shy away from a sensible investment because of the tax on the potential gain. People invest to make money, and potential taxes have never scared them off." He concludes in essentially ethical terms: "My friends and I have been coddled long enough by a billionaire-friendly Congress. It's time for our government to get serious about shared sacrifice."

Buffet's call for action in the United States was accompanied by other similar calls in France, Germany and Italy, which were also based on confronting the ethical dilemmas latent in the situation. Sixteen of the most successful entrepreneurs in France, in a joint declaration, requested President Nicolas Sarkozy to raise taxes on the richest people. Among them were the presidents of L'Oreal and the Total oil company. In Italy, one of the richest, the owner of Ferrari, Luca di Montezemolo, said it was only fair that the rich should pay more. In Germany an organization was founded called "the rich for a higher rate for the richest." Its leader, Dieter Lehmkuhl, said: "We don't need all this money to live." The organization's

original manifesto declared: “We want to set an example of how the wealthy are able to commit to more towards overcoming the economic and financial crisis.”

The new interest in ethics applied to the economy is also reflected in numerous signs of the credibility now enjoyed by the non-governmental organizations and social entrepreneurs.

Polls in different countries, among which is Spain, show that the NGOs are the institutions with the greatest credibility. *The Economist* magazine (2010) makes a significant remark about the chain reaction started by those who undertake social projects to help the most disadvantaged. It says, “A decade ago the term ‘social entrepreneur’ was rarely heard. Now everyone wants to be one, from London to Lagos. The lectures on social entrepreneurs are invariably the most in demand by students at the main business schools.”

The interest in ethics in the economy is fed by the weight of the lack of ethical values in generating the financial crisis on Wall Street in 2007–2008 which was propagated throughout the globalized world, and also by the size of the disparities in our times, which were carefully analyzed in the *Caritas in veritate* encyclical (2009), as follows:

Global wealth grows in absolute terms, but inequalities also grow. In the rich countries new social categories become impoverished and new types of poverty are created. In the poorest regions some groups enjoy a type of wasteful and consumerist super-development that contrasts unacceptably with persistent situations of dehumanizing misery.

In fact, as *The Economist* points out, 1% of the world population currently owns 43% of the world’s assets, The richest 10% owns 83% of them. At

the same time, 50% of the world population with the lowest income has 2% of the assets. The Vatican encyclical calls this situation “the scandal of the damaging disparities.”

Apart from their economic contraindications, the great inequalities also have very direct consequences on the lives of people who thwart basic ethics.

In their work *The Spirit Level*, Wilkinson and Pickett (2010) make comparisons, with detailed statistics, between more and less unequal countries: the greater the inequality, the more crime, the greater infantile mortality, the more obesity, the more adolescent pregnancies, the greater gender discrimination and the lower life expectancy.

The demand for ethics in the economy is growing in the world. Ethics are expected from politicians and governmental authorities, but also from businessmen and companies. This demand forms part of a deeper view. There is a perception that the debate on ethics in general has been marginalized from the collective agenda.

A prominent philosopher, Charles Taylor, claims that discussion is limited to “means,” such as technologies and money, but that any talk about the ultimate objectives to which these means should be applied has been sidelined. These ultimate aims—the meaning of life, the right profile for a society, the core values that must be respected, such as reinforcing the family which is the pillar of society?do not form part of the main debates.

#### THE IMPACT OF THE ETHICAL LACUNAE ON THE WORLD ECONOMIC CRISIS

The world economy is undergoing the most acute crisis since the Great Depression of 1929. Originating in the 2007–2008 Wall Street financial

crisis, in 2011 it provoked a marked fall in the gross domestic profit world-wide of 2.6%, and a drop of 11.1% in world trade. The most recent data predict an uncertain future.

The American economy, which produces 25% of the gross world profit, is growing very weakly and has been unsuccessful in its attempts to lower the unemployment rate. *The Economist* reckons that it will grow only 1.6% in 2011, and 2% in 2012. With 9.1% unemployment, that means 14 million people out of work. If to that number are added the under-employed and those who have left the labor market, the figure goes up to more than 16%. The United States Census Bureau reported (on September 14<sup>th</sup>, 2011) that poverty had reached 46.2 million (15.1% of the population)—the largest figure since it started to be measured 52 years ago. Even worse are the poverty figures on Latinos (26.6%) and colored people (27.4%). It is estimated that there are 50 million people without medical insurance and 40 million recipients of food stamps (a federal subsidy for purchasing food for people suffering extreme poverty).

The growth forecasts for the Eurozone, according to *The Economist*, are 1.7% in 2011 and 1% in 2012. The rate of open unemployment is 10%, while that of young people in different countries exceeds 25%. The estimations for the world economy have been adjusted downwards in the second half of the year, and it is predicted that it will not grow more than 4% in 2011 and 2012.

Multiple factors of a different nature influenced the generating of the current crisis. Among them, “ethical lacunae” played an important role, as seen in the conduct of the key economic agents. This was recorded, among other sources, by interpellations in the United States Congress regarding the crisis, the reports produced by the committees set up by Congress to investigate, the Organization for Economic Cooperation and Development (OECD) analyses, and numerous investigations.

Among the main ethical problems that had an effect on the crisis were those outlined below.

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**The failures in corporate government**

The Secretary General of the OECD, Angel Gurría (2009) analyzed the crisis as follows:

The current economic crisis is costing the world trillions of dollars, millions of jobs, a great loss of confidence in the financial markets, and a regression in our efforts to reduce global poverty. It is the result of a combination of severe failings. The failure in corporate ethics is one of them—one that is at the epicenter of this financial and economic earthquake.

A report by the OECD Corporate Government Group (Kirkpatrick 2009) concludes in the same way: “The financial crisis can be attributed to a large extent to the failings and weaknesses in corporate government.”

The study by the OECD Group found, among other things, “distorted incentive systems.” Thus, in different cases the remuneration for chief executives of important business organizations was linked to the latter’s short-term earnings. That stimulated conduct which stuffed the companies’ assets with “subprime mortgages” and financial products without a solid base in real assets. The supervision of these executives by the governing boards proved to be ineffective, according to the OECD

group. The desirable relationship between the fulfillment of objectives and remuneration was largely lost.

### **The tendency towards speculation**

President Obama often refers to the causes of the crisis, emphasizing the role of what he calls “unbridled greed.” In a recent speech, the Dalai Lama, Nobel Prize laureate,<sup>1</sup> said that when he asked a prominent American businessman about the reason for the crisis, he gave him the same reply.

The pursuit of maximizing immediate gains through short-term transactions aimed at producing deliberate losses in the stock of banks in difficulties, and other forms of speculation which, according to UN data, currently also exist in the food market, deepened the crisis.<sup>2</sup>

In the midst of the crisis, in 2009, in a hitherto-unheard-of measure, the United States Securities and Exchange Commission banned the short-selling of 800 shares for a limited period of time. This measure was recently repeated in several European countries.

The Commission’s Chairman, Christopher Cox contended that this measure was necessary “in order to ensure that undercover manipulation, illegal naked short-selling (in which the shares were not even delivered) and illegitimate commercial practices would not drive market behavior and undermine confidence.”

<sup>1</sup> Dissertation by the Dalai Lama at the World Congress on Ethical Values, Monterrey, Mexico, September 9<sup>th</sup>, 2011, in a joint session with Nobel Peace Prize laureate Shirin Ebadi and the author.

<sup>2</sup> Further information can be obtained from the interview of the UN Rapporteur on the right to food (De Schutter 2011).

## The deficient ethical training of managers

American society asked itself, “How did executives, graduated with MBAs from the best business schools, act so unethically?”

Amitai Etzioni, Professor Emeritus at George Washington University, called upon the United States Congress, through *The Washington Post* (2002), to add the deans of the business schools to their list of those interpellated “in order to explain to the public how ethics were taught in their schools.”

Evaluations carried out by the respected Aspen Institute revealed the extremely poor training in ethics offered by the business schools. The most advanced management technologies are taught, but not the social responsibility intrinsic to their application.

*The Wall Street Journal* published (Canales, Massey, Wrzesniewski) that when students at the main business schools were asked about the qualities necessary to be a successful manager, they suggested first of all vision and perspicacity, whereas honesty and responsibility were only mentioned after much discussion. And it concluded, “Some experts believe that the schools should train managers in aspects strictly related to business strategies, such as negotiation, incentives, etc., and leave the teaching of values to other people. We cannot disagree more.”

Piper, a leader at Harvard in the efforts to strengthen ethics teaching in the MBAs, stated that “in the managerial curricula the emphasis in on quantification, formal models and formulas, while the application of good judgment and debate on values are minimized [...] the students assume that these are not important.”



Gentile says in *The Financial Times* that this atmosphere creates the belief that the way for a student to show that he is clever is by arguing that market competition does not allow for personal morality.

There is currently a great reaction against the role that moral fallacies played in the crisis. The president of Harvard, Drew Faust, broke with the tradition whereby the deans of the Harvard Business School were professors of economics or finance, when she appointed Nithin Nhoria, professor of leadership and ethics as the new dean. The dean has emphasized (Lauerman, 2010) that “the crisis has deeply undermined the confidence of society in companies and also in management education.”

### **A unilateral view of the economy**

Underlying the crisis was the idea that the markets should be deregulated. It was pointed out that during the previous United States Administration a drastic weakening of the regulatory legislation and the bodies responsible for applying it had taken place. The gamble was that the markets would regulate themselves.

This did not happen in practice. The elimination of basic regulations encouraged the emergence of “perverse incentives” and practices such as the gigantesque fraud perpetrated by the Madoff fund although the regulatory authorities had been receiving continuous reports about it since 1992.

When the United States Congress interpellated Allan Greenspan, who had been Chairman of the Federal Reserve for 20 years and a champion of deregulation, he replied (2009),

I am absolutely dumbfounded [...] We believed that the financial institutions would regulate themselves and would protect

the interests of their shareholders, but they didn't do so. [...] The entire intellectual edifice that we built has collapsed.

The mistakes and the lack of ethical empathy for the protection of the collective interest implied in this view of the applied economy was highlighted from different quarters.

President Nicolas Sarkozy of France said that “a certain idea of globalization is dying with the end of financial capitalism that imposed its logic on the entire economy and contributed to perverting it.” *The New York Times* wrote in an editorial that, “the crisis could have been averted if the regulators had applied the rules and governmental civil servants had questioned the high-risk loans and other doubtful practices.”

The combination, among other factors, of corporate failings in ethical aspects, systematic speculative conduct, the meagre ethical training of executives and the abandonment by public policy of the protection of the collective interest in basic issues, were a crucial part of the grave current crisis. The world is reminded that an economy without ethics can constitute a danger. Adam Smith, the founder of modern economics, already anticipated this 200 years ago when, in 1759, he pointed out that markets should be governed by certain ethical values because, if not, there would be serious dangers. He emphasized very specifically the qualities of “prudence, humanity, justice, generosity, and public spiritedness.”

#### AN ETHICAL AGENDA FOR THE ECONOMY

The simultaneous technological revolutions in very different fields such as biotechnology, genetics, molecular biology, computer science, communications, materials science, nanotechnology, robotics and many

more have greatly multiplied the capacity for producing goods and services, and made a great step forward in life expectancy possible. However, a large part of humankind is excluded from these advances on account of factors such as the “damaging disparities” mentioned above, while at the same time there are real “ethical scandals.”<sup>3</sup> Thus, a little girl who is born in a poor country has a life expectancy of 45 years, whereas one that is born in a developed country now lives for more than 80 years. And in a world that could feed its entire population thanks to the accelerated technological progress, 1,020 million people, or one out of seven, go hungry.

## **An ethical agenda is needed for the economy in order to confront these morally inadmissible contradictions that destroy social cohesion**

In the 21<sup>st</sup> century, 1,400 million people lack electricity. The 800 million people who live in Sub-Saharan Africa consume the same amount of electricity annually as do the 19 million who live in New York State. Climate change affects every human being, but its impact is extremely unequal. For every person who suffers from it in the rich countries, there are 80 who are subject to its effects in the developing world. Malnutrition is one of the main reasons why 8.1 million children die each year. With only 25 cents a day, it would be possible to supply the malnourished children with a cup containing all the necessary micro-nutrients. But 1.5 million dollars are spent on armaments every second.

An ethical agenda is needed for the economy in order to confront these morally inadmissible contradictions that destroy social cohesion. Some of the subjects synthesized must be included among its core concepts.

<sup>3</sup> The author explores the subject in detail in his works. (Kliksberg 2010 and 2011a).

## A new view of development

As the Sarkozy Commission (2009) chaired by Nobel Prize laureates Joseph Stiglitz and Amartya Sen pointed out, a broader view of development must be targeted. Economic growth is one of its objectives, but not the only one. Among other things, social inclusion, equity, access to culture, increased freedom, harmonious coexistence with nature and participation at all levels are required.

Pope John XXIII stated precursorily in his encyclical *Mater et Magistra* (1961) that,

It is in the nature of human beings that, when engaged in their productive activity, they need to be able to assume their own responsibilities and perfect themselves.

Very often there is a latent trade-off that is only made clear when development is not only measured in terms of gross domestic product, but with broader indicators such as those proposed by the commission and, previously, the UN's development paradigm.

Thus, the unbridled exploitation of nature can increase short-term growth, but it generates imbalances that will deprive millions of people of their historic habitat, as well as generate grave medium- and long-term economic harm.

The increased numbers of cars stimulate the economy but increase pollution as well as the number of hours spent in large cities, while the number of hours spent in large cities and in going to and coming from work takes time away from family and private life.

The new interest in living in a more harmonious way has spurred the emergence of many movements and the wish to learn from experiences,

such as visiting Bhutan, the only country in the world where the gross national happiness produced annually by society is systematically measured.

### **Social responsibility in public policies**

It is hoped that the governments of democratic societies will guarantee the fundamental rights of citizens in decisive areas such as nutrition, health, education, the establishment and development of the family, and work. Already In 1989 the UN General Assembly sanctioned the right of all the world's citizens "to development," and made governments chiefly responsible for putting this into practice.

Ethical and socially-responsible conduct on the part of governments will require, together with a total eradication of corruption and clientelism, showing through action that rights such as access to health and education are really prioritized.

This must be reflected in budget allocations. Studies such as that of Bidani and Ravallion (1997) which examined 35 developing countries, found a strong correlation between public expenditure on health and life expectancy and the reduction of infantile mortality. Gupta, Verhoeven and Tiongson (1999) established that expenditure on primary care is associated with a reduction in the rates of infant mortality.

Musgrave (1996) summarized the conclusions of different similar studies while highlighting that,

"While none of the reasons for state intervention is solely applicable to the health sector, certain market failures are worse here than in other areas of the economy."

Jeffrey Sachs *et al.* (2002) showed that the improved nutrition in England and France during the 19<sup>th</sup> and 20<sup>th</sup> centuries was crucial to their increased productivity and per capita GNP.

A similar situation exists in education. Achieving higher school attendance by girls can drastically reduce infant mortality. Nevertheless, in several countries investment in health and education is extremely low. There is no real responsibility in public policy. Lack of resources could be alleged, but in many instances that is not the case. Thus the list of those which invest the least in public health is headed by an oil-producing country, Equatorial Guinea (only 2.1% of GDP instead of the minimum of 6% called for by the World Health Organization). In that country 9.1 children per 1,000 live births die; in Sweden and Norway it is three. Among those which also invest the least in health are oil-producing countries such as Kuwait (2.2%), Oman (2.4%), United Arab Emirates (2.7%), Saudi Arabia (3.4%) and Bahrain (3.7%).

### **Corporate social responsibility**

Societal demand for social responsibility on the part of private enterprise grows daily. The pressure from small investors, who are rightly anxious after the severe harm inflicted on them by the irresponsibility of Wall Street and other episodes, is intensifying, as is that of responsible consumers, who increasingly tend to prefer the products of companies with a strong sense of corporate social responsibility, and also that of civil society in general.

Michael Porter and Mark Kramer (2011) wrote in a recent article in the *Harvard Business Review* that,

In the past few years companies have been considered to an increasingly large degree the cause of social, environmental and

economic problems. And a large proportion of the population believes that companies have prospered at the expense of the community.

They emphasize that, “The legitimacy of business has fallen to levels never before seen in history.”

They demand that more thought be given to corporate social responsibility, that it be practiced at a higher level and that “the economy and society should act in conjunction once again.” They float the idea that companies must generate “shared value.” Specifically they state, “The objective of corporations must be redefined as the creation of shared value, not just the generation of earnings [...] learning how to achieve this is our best opportunity for relegitimizing business.”

Corporate social responsibility today cannot be reduced to specific contributions. It must be part of all company policies. It must produce social value for the community in its different areas of activity.

As highlighted by ISO 26,000 which was drawn up by ninety-nine countries, it will not be prejudicial to them. On the contrary, numerous studies show that the companies with the most corporate social responsibility achieve greater productivity and competitiveness, are more favorably perceived by the financial community, are more highly ranked by consumers, and have greater chances of attracting people with talent.

Among the examples of creating shared value, WaterHealth International employs innovative techniques for water purification. It provides drinking water at minimum prices for a million people in India, Ghana and the Philippines. Waste Concern transforms 700 tons of rubbish per day from the poor quarters in Bangladesh into fertilizers.

A leading example is that of the social enterprises sponsored by Nobel Prize laureate Muhammad Yunus. The founder of the Poor People's Bank entered into an agreement with Danone, a leading international dairy-products company to provide an answer to infantile malnutrition. He challenged the company to produce a very cheap yoghurt that would include all the necessary micronutrients for a child. The Grameen-Danone company has already achieved some major successes. At the same time another agreement is being worked out with Adidas to produce very inexpensive shoes for the many barefooted children in the world. Walking barefoot can produce severe and irreversible health problems.

Demand is growing because the companies are fixing high ethical standards and are fully meeting them. *The Economist* magazine has affirmed that, "corporate social responsibility has won the battle of ideas" and will be "the only way to do business in the 21<sup>st</sup> century."

Many of the main multinational companies meeting at the UN Global Compact 2010 annual review signed the New York Declaration. Among its points were the following:

We commit ourselves to the UN Global Compact, and to the call to include the ten universal principles in the areas of human rights, labor, environment and anti-corruption in our strategies, operations and culture, and to act in support of the far-reaching goals of the United Nations, especially the Millennium Goals.

In this sense they stated in the declaration that:

The markets need effective regulations in order to manage themselves. Governments must lay down clear signals, especially in critical areas such as climate change. They must fix goals and incentives to reduce emissions of polluting gases,



strengthen climate resilience and support the production of clean energies [...] they must stimulate, while complementing regulation, the commitment by the private sector to voluntary initiatives.

## **The companies with the most corporate social responsibility achieve greater productivity and competitiveness, are more favorably perceived and have greater chances of attracting people with talent**

The magnitude of the social call for greater corporate social responsibility appears in full force in the findings of the aforementioned Edelman Trust Barometer (2011). On asking those polled if “the Government should regulate the activities of corporations to ensure that companies conduct themselves responsibly,” the replies in favor predominated. They were: United Kingdom (82%), Canada (74%), Sweden (66%), China (62%), United States (61%), India (61%) and Brazil (53%).

### **Enhancing Volunteerism**

The open ethical agenda includes deepening the commitment of civil society to eliminate “ethical scandals,” working in strategic alliances with public policies, and promoting corporate social responsibility.

The world of NGOs continues to expand and today, according to Johns Hopkins University statistics (Salomon, 2003), it now constitutes the eighth global economy in respect of gross product. According to the preliminary estimates for the State of the World’s Volunteerism Report for 2011 being prepared by the UN, there are now a billion volunteers.

They make the difference daily, offering direct solidarity with warmth, quality and commitment to millions of excluded families. That has led them to head the credibility tables in many countries. Apart from their direct effect, they are a school for moral preparation for action for young people, and are widely accepted among them. In many countries they work with little support from public authorities, and with very limited resources. They contribute directly to raising the ethical level of society by constituting a model of altruistic conduct in environments in which hedonism and lack of solidarity have powerful stimulants.

Our times need to make the economy and ethics compatible, in a concrete way. A work agenda for implementing this should include action items like those mentioned above. Society as a whole should demand and promote a renewal of the development paradigm that moves towards social responsibility in public policies, corporate social responsibility, the mobilization of share capital through the strengthening of volunteerism, and other features, such as the enhancement of social commitment in universities, support for the great task of organizations based on faith, and backing for social entrepreneurs.

#### THE CASE OF LATIN AMERICA

Latin America, with its 650 million inhabitants, is a continent where important questions, above all ethical, are being posed.

It is exceptionally endowed with natural resources. It has a third of all the clean water on the planet and quantities of cheap sources of energy; its subsoil contains some of the greatest global reserves of strategic raw materials, from oil to lithium; and it is one of the largest forest and biosphere reserves.

However, the big question is, “why, notwithstanding its natural advantages and its history without wars or major natural cataclysms, is a third of its population below the poverty threshold, why do 30 children out of 1,000 die before they are five years old, why do more than 20,000 mothers die annually during pregnancy or childbirth (90 for each 100,000 live births), and why is one out of every four young people not part of the education system or the labor market and in a state of severe social exclusion?”

The incidental factors are multiple and vary according to the history of each country, but most of the countries have a circumstance in common: enormous disparities. They have the worst Gini coefficient in respect of wealth distribution. The differences between the 10% richest and the 10% poorest people vary between 30 and 60, according to the country. In Norway it is 6.

The inequality is present not only with regard to income, but also to access to land, where the Gini coefficient is even worse, as well as to other factors. The World Bank (2004) states:

Latin America suffers from enormous inequalities. [...] moreover it is an invasive phenomenon that characterizes every aspect of life, such as access to health care, education and public services, access to land and other assets, financing from the formal credit and labor markets, and participation and political influence.

The great inequality generates poverty traps daily: the children of poor families suffer from serious health and malnutrition risks, they work and do not complete secondary school, and without that they remain outside the formal economy.

Birdsall and Londoño (1997) measured the relationship between inequality and poverty econometrically from 1970 to 1995. They found

that the large increases in inequality during this period were responsible for at least half of the large increase in the figures for poverty. In a study by ECLAC, UNDP and IPEA (2003) the conclusion was that, "In most of the countries examined it would be enough for the Gini coefficient to drop one or two points in order for the incidence of poverty to be reduced to the same extent as in several years of positive economic growth."

Poverty is, as Pope John Paul repeatedly pointed out (1998), a violation of fundamental human rights. In societies with as many advantages as those of Latin America, it is inadmissible that it should be of such major proportions.

Among other paradoxes, Latin America produces three times as much food as is needed for its population, but nevertheless 16% of the children suffer from chronic malnutrition and 53 million people are malnourished. Despite its enormous potential in clean water, 50 million people lack drinking water. Almost one out of every five Latin Americans lives in a shack, an extremely precarious form of housing.

Latin Americans increasingly resent the great ethical injustices: the poverty and inequality, as well as others, such as the relegation of indigenous and Afro-American populations, gender discrimination and the lack of attention for the disabled and old people.

In surveys such as the Latinobarómetro, 89% of the inhabitants of the region condemned the pronounced levels of inequality.

Over the past decade, civil society has substantially raised the levels of citizen participation. An increasingly dense social fabric of NGOs of all kinds, grass-roots organizations, women's movements and movements of young and indigenous people has developed.

A call for more active democracies and an ethical agenda on all levels has grown. Thirteen presidents were dismissed from office through democratic means between 1993 and 2007 before completing their terms, as a result of massive social rebellions by the people. The main causes were their non-fulfillment of their mandates to reduce poverty and inequality, open up opportunities and, in some cases, on account of corruption.

## **Poverty is, as Pope John Paul repeatedly pointed out (1998), a violation of fundamental human rights**

Social demand in different countries has achieved significant changes in ethical terms. There is still a long way to go, but among the improvements on the ethical agenda are some that are summarized as follows:

### **The quality of public policies**

There is much greater concern in public policy with regard to meeting the great open challenges. In countries such as Brazil, Argentina, Chile and Uruguay, among others, investment in social affairs has more than doubled. At the same time, credit lines have been opened and small and medium-sized companies have received strong support. Large-scale efforts have been made in policies aimed at integrating marginalized young people. There has also been relevant investment in infrastructure to promote living standards in depressed and rural areas.

Costa Rica, one of the few countries of the region where the major investment in health and education is a State policy independent of

governments, recently included an amendment in its constitution to the effect that the budget for education must never be less than 6% of GDP. Over the past 30 years the budget for health has also been 6%. Costa Rica has one of the lowest maternal and infantile mortality rates internationally, as well as long life expectancy.

The results of the new generation of public social policies are readily seen. Thus, among them, it is estimated that in Brazil during Lula's administration 30 million people rose out of poverty and joined the middle class.

In Uruguay poverty has been drastically reduced in recent years, major health reform has increased access to health care in large sectors of the population, and the Ceibal Plan has democratized access to Internet, giving coverage to the 300,000 primary school students.

In Argentina the Universal Allowance per Child for children of parents without regular jobs protects 3,700,000 poor children on condition that their families show that they are attending school and being vaccinated. The country's economy has grown 7.8% annually over the past eight years, and 5 million jobs have been created, reducing unemployment from 23 to 7.3% at the end of 2000.

International economic conditions such as higher prices for commodities and increased Chinese demand helped these countries, but these opportunities were also managed advantageously in an effort to reduce poverty and inequality

Forming part of this was the growth of alliances between the state, private companies and civil society to confront key social problems and improve the level of education.

In all these countries and others of the region, the transparency of the state and the rendering of accounts have improved, and the management–control mechanisms have been strengthened.<sup>4</sup>

Much more progress needs to be made, and the people continue to exert pressure more actively for ethically-consistent policies.

### **The demand for corporate social responsibility**

Latin-American public opinion is making the requirement for corporate social responsibility part of the collective agenda. The NGOs concerned with corporate social responsibility are on the rise, and coverage in the mass media, audits and attention in the public sphere are increasing, as are consumers who prefer products from the companies who practice it.

Progress is being made towards an advanced view of corporate social responsibility. The expectation is that, based on it, companies will—among other things—treat their staff well, offer consumers good-quality products at reasonable prices, take care of the environment, practice good corporate governance, and become actively involved in problems that are critical for society, starting with those in their geographical vicinity.

A broad view of the situation shows different attitudes regarding these improvements in corporate social responsibility in the business world, which are vital and strategic for the development of countries.

<sup>4</sup> See the articles by Rómulo Paes de Souza “Enseñanzas de Bolsa Familia” and Juan Manuel Abal Medina “La asignación universal por hijo en Argentina” in Kliksberg (2011b), as well as in Subrandt and Lefioa (2010).

There is still a large number of companies that has not responded to the international call for a new role for business. They remain anchored in traditional conducts of isolation and short-term maximization.

But there is a sector that is growing dynamically and very hopefully, and which has become part of entrepreneurial philanthropy. Its contributions to causes of public interest are on the rise, even though they continue to be proportionally much lower than those that are common in the developed world.

Some companies are taking, or have already taken, the step from philanthropy to a broad view of corporate social responsibility that includes the above-mentioned issues and amounts to incorporating it into their corporate policies and allocating steady resources to it.

In Brazil the systematic educational action by the Ethos Institute, which was founded by entrepreneurs themselves, together with other efforts, is producing concrete progress. In an investigation conducted by Ethos in 2004, it was found in a sampling of 55 firms analyzed that the number of those practicing CSR was 11. By 2008 it had doubled to 22.

Several companies in Argentina, Brazil, Chile and Mexico are incorporating social balance sheets. Natura, a Brazilian multinational and a world leader in corporate social responsibility, produced a social balance sheet in 2010 that rendered accounts for its actions on behalf of the community and the environment, which was drawn up in collaboration with other groups with shared interests.

In Argentina, young entrepreneurs from Rosario founded a movement in Mendoza Valos in favor of corporate social responsibility, which was called Moverse. They also founded similar movements in other towns, thereby setting up a National Federation of corporate social responsibility.



There are developments along the same lines in other countries. For example, in Panama COSPAE is working actively; it is a council that brings together all the chambers of commerce with the aim of supporting education; in Guatemala a group of young entrepreneurs generated Centrarse, and linked their action to the Millennium Goals, while there are very varied developments in countries such as Chile, Mexico and others.

The examples of multinational companies with a strong presence in Latin America, such as BBVA with its major investment in education, Telefonica of Spain with its very successful Proniño program and Banco Santander with its support for education in corporate social responsibility, have contributed significantly to these countries and to the future of corporate social responsibility.

Corporate social responsibility does not fall like manna from heaven. In order to ensure that the region makes progress it is essential to educate future generations of entrepreneurs. For this purpose the author, with the support of the UNDP, Buenos Aires University and other important universities, founded the Ibero-American University Network for Integrating CSR (Red Unirse). Two-hundred and thirty universities from twenty-one countries<sup>5</sup> have joined. The Network works towards the solid incorporation into the curriculum of teaching and research in corporate social responsibility. A training program for two-hundred young people in economic ethics and corporate social responsibility was also generated. It is called “100 outstanding young people for development with ethics,”<sup>6</sup> and is being taught in thirty universities in Argentina, Peru and Uruguay and

<sup>5</sup> More detailed information can be found on the web page of Red Unirse: [www.redunirse.org](http://www.redunirse.org)

<sup>6</sup> Detailed information can be seen on the program “100 youths for an ethical development” in *Clarín* (September 28<sup>th</sup>, 2008). “They will train young university students committed to the public interest,” and in *La Nación* (December 13<sup>th</sup>, 2009), “Económicas de la UBA forma líderes con compromiso social.” (The Economics Department of Buenos Aires University trains leaders with social commitment.)

is also being disseminated in Mexico, Brazil, Guatemala and Panama, among others,

However, progress is slow compared with what is needed. There is a long way to go in this key ethical matter.

### **Civil society on the go**

The call to ethics in action is being taken up very vigorously by Latin American civil society. The examples of exemplary organizations are multiplying in the region. Many of them have the support of public policy and private companies and constitute true agents of pro-solidarity change.

Among many others, Caritas Argentina, with its 150,000 volunteers, directly helped three million people during the great 2002 crisis; AMIA, the central body of the Jewish community in this country, set up the main employment bureau; Fe y Alegría, which was founded in Venezuela, took its task of education to sixteen countries; Faça Parte de Brasil succeeded in getting volunteerism taught in a great number of schools. A Chilean NGO, Un techo para Chile with a leader and membership of young people, which builds housing for families in extreme poverty, has just been awarded the Premio de Derechos Humanos Rey de España (King of Spain Human Rights Prize). It now has a presence in 19 countries of the region and has built 80,000 housing units; 400,000 young volunteers participate in the work.<sup>7</sup>

The deepening of ethical commitment in public policies, in private enterprise and in civil society is essential in order for the great challenges

<sup>7</sup> More details can be found in: <http://www.untechoparamipais.org>.

of the right to health, education, a decent job, basic services and inclusion to be met as early as possible in the region.

#### A GENERAL CONCLUSION

In the first part of this article the demand for more ethics in the world economy was analyzed, in the second part, the importance of the ethical lacunae in the current grave financial crisis was stated, in the third the outlines for an ethical agenda were laid down, and in the fourth the situation in Latin America was examined from an ethical point of view.

During recent decades there has been a considerable gap between the thought predominant in the economy and that in ethics. The message implicit in conventional economic thought was that the economy could be resolved technically, whereas ethics was a topic for other areas, such as religion or philosophy.

That was not how its founding fathers conceived the economy. Adam Smith, David Ricardo, John Stuart Mill and others saw it as a moral discipline and were intensely concerned about the ethical implications of economic policies and the actions of economic agents.

Following the opposite course “has seriously impoverished the economy,” wrote Nobel Prize laureate Amartya Sen. Ethical weaknesses have been very influential in the current difficult problems of the global economy.<sup>8</sup>

On the other hand, more successful and sustainable economies, which head tables such as the UN Human Development Index, have been based on the rigorous practice of ethical principles in public and private areas.

<sup>8</sup> Different dimensions of the topic are discussed in Sen and Kliksberg (2011).

Sennett (2011), Professor Emeritus at the London School of Economics, wrote, “Norway and Sweden have coordinated efforts to include young people in jobs for beginners, and have a youth unemployment rate of about 8%.” This, as he points out, contrasts markedly with the 22% of youth unemployment in Great Britain and the United States.

It is time to address once more the interrelationship between ethics and the economy. The economy must function with the greatest possible efficiency, but it is just a means, as laid down by the greatest spiritual wisdoms of humankind, to enable the basic ethical goals to be fulfilled.

Among them are that mothers can give birth safely and that children can be born and develop in good health, that the family, the pillar of society, can prosper, that young people can have access to education and work, that gender discrimination and discrimination of all types can be overcome, that the disabled can be protected, and that older people can lead a full life.

At the same time, every actor in the economy must assume his/her ethical responsibilities, and his/her practices must be compatible with them. Too much time has been lost discussing how ethics can be incorporated into the economy, and relegating them to a marginal place. Addressing this connection fully once again will be decisive in confronting the dire situation described in the *Caritas in veritate encyclical* (2009):

The technical forces that move, the planetary interrelations, the pernicious effects on the real economy of a badly-used, and to a large extent speculative, financial activity, the tremendous, and frequently-provoked migratory flows, which are then not properly managed, and the unregulated exploitation of the earth's resources, induce us nowadays to reflect on the measures necessary to solve problems that not only are new [...] but also and above all have a decisive effect on the present and the future of humanity.

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London: Penguin Books.

**>> The global economy is immersed in the worst crisis since 1929. Among its causes are “ethical lacunae.” Factors such as failings in corporate governance, speculative tendencies, the deficient training of managers in ethics and a reductionist view of the economy have had severe consequences. There is now a “thirst for ethics.” It is essential to recover the relationship between ethics and the economy.**

**>> Alignments are proposed for an ethical agenda for the economy that confronts the ethical scandals of large-scale poverty and the marked inequalities in a world where technological revolutions have multiplied productive capacity. The agenda includes a new view of development, social responsibility in public policies, corporate social responsibility, the strengthening of volunteerism and the work of social entrepreneurs.**

**>> The case of Latin America is also analyzed. This is a region of enormous potential but also of demanding open ethical challenges.**

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