On “Responsible Capitalism” - DRAFT v.0.1

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The present UK government is keen to promote “responsible capitalism”. We briefly consider how tightly constrained the options for this seem, and present a possible component of a feasible way forward.

I. INTRODUCTION

We will not develop herein the deeper critique of monetary systems in general, of which capitalism is a species. That critique, and an option for overcoming those issues, is developed in [1]. This article merely seeks to discuss the short and medium term future issues with the development of so-called “responsible capitalism”.

We take some points for granted in the following discussion. In considering what issues are key in discussing the problems with modern capitalism, we assume that money should circulate throughout the system; not just horizontally through trade, but also vertically to promote general welfare. In addition, we also hold as a virtuous principle that the optimum social system is one with the most freedom for all relative to the burden of general regulation *such that all the outcomes are non-negative* (qualitatively speaking), and thus the requirement for policing should be minimised. By “social welfare” we mean that pattern whereby those activities of society that are not profit making, but which nonetheless are an essential requirement of healthy lives with adequate access to infrastructure, opportunities for betterment, recreation, or to services for care, are well supported.

No modern markets are totally free from regulation. A body of contract law is presumed as a minimum.

II. A SUMMARY OF THE SITUATION

Some aspects of the current situation are: In a capitalist economy that is sufficiently globally mature the average general rate of returns on investments will dwindle as a function of that process of maturation. As this occurs, competition between commercial banks (based in particular tax jurisdictions but with international reach) for factors to invest in, will bleed the social welfare dry. This will occur because the material social structure will move away from being one within which, with competition as the primary mechanism by which individual companies ensure turnover, a general turnover is thus ensured. Instead, not only is there the threat of *de facto* monopoly by some financial company, but it is also the case that the functioning of that company will be driven more towards ensuring that some turnover (some cycling of money around the system) exists at all. In order to do this in the presence of lending schemes with interest rates, it will be necessary to start making loss-leader investments (or non-profit investments) more widespread in order that those initial interest rates are matched. In other words, there will be no sense in which the financial system as a whole can expect to draw more money out of the system than it put in. Nor should investment companies and bankers expect to see healthy flourishing societies if interest rates are sustained, while no non-profit investment is made in the general social welfare.

It can now be seen that the existing system with interest rates but inadequate investment into general social welfare is merely a scheme for ensuring that as much money stays as near the top of the pile as possible. This is destined to become a system that tries to eat its own legs in order to continue walking - simply a contradiction in terms.

Increased taxation by governments at this time also increases the possibility that as commercial entities are also in the position of being driven by real forces towards more loss-leader non-profit investment, they are also exposed to the dual burden of increased taxation as profit rates fall. This risks impoverishing the economy through inducing the failure of key firms running on tight margins. The cascade effects from the loss of key entities are well documented (see e.g. [2]).

Taxation by governments is perhaps unlikely to be an optimal way to ensure that such non-profit investment occurs under these circumstances, because governments themselves are precisely such non-profit investments. Taxation may be forced investment, but it is still investment. Investment in government does employ people to handle the process of directing non-profit investment, but it only does this. It is in effect risking drawing non-profit investment away from more socially worthy goals by creating such a managed process of indirection. There is thus a risk of opportunities lost because of intermediate costs of questionable value. Governments might need to evaluate carefully the minimum amount of management needed to support strategic outcomes in respect of the social welfare.

However, this overarching process is presently systemic and global, despite resting upon aspects of diverse nations, with diverse legal systems and markets. It can be readily seen that if any one entity, whether a nation or commercial entity, unilaterally pursues a policy of encouraging direct non-profit investment in the social welfare without adequate safeguards, then it is liable to become a victim of its own generosity, as the rules of competition ensure that others can opt to behave like hyenas moving in on a wounded wildebeest.

A better scheme might enhance general social welfare by having all investments occur from the commercial sector into the social sector directly with minimised intermediate costs. In some nations, like the UK, there is provision in the tax legislation for commercial entities to make a certain amount of direct non-profit investment instead of paying taxes to the government. But the overall economic tendency is likely to see profit rates slowly ebb, and hence political pressure will increase in favour of lower taxes. Lower tax rates means lower amounts of offsetting taxes by direct non-profit investments. We are already witnessing large scale government and supra-government payouts merely to sustain the processes of general turnover. In other words, a massive net negative taxation at the expense of the general social welfare.

In a bid to assuage this problem governments are imposing austerity measures across their service provision.

III. THE IMPROBABLE CHALLENGE

The challenge posed by the term "responsible capitalism" is to take a systemic tendency that is almost entirely inimical to "responsible capitalism" and turn it into one that is. Moreover, at this time the mechanism needs to be one that allows for unilateral opt-in without thereby hobbling relative competitiveness of a commercial or national entity. Ideally, there should be a system-wide incentive structure whereby companies actually compete to fulfil investments in the general social welfare.

- We suggest that the there is a low likelihood of continuing support of non-profit services by taxable entities as a matter of free choice in the present economic climate, without an additional incentive structure in place.

IV. A POSSIBLE WORKAROUND

Since markets and businesses have a dislike of any payment which does not lead to a rapid direct positive return on investments. Without changes, we are therefore lumbered with the option of using government taxation to support non-profit services, which we've already noted is perhaps too costly in itself. However, this gives rise to the option of providing some manner for the auditing and strategic direction of pledges by taxable entities to directly support various non-profit services, which is cheaper than outright government administration of such taxation. Let us nickname this pledging system Pledge Social Projects (or PSP, named after the idea of the original Pledge Music company model). Then government taxation can be used as a bullying stick: Either the taxable entity pays 100% tax direct into government coffers, or it can opt to pay, say, 50% into government coffers and 45% into the PSP scheme, thereby gaining a 5% tax discount. Depending on the relative operating costs of the PSP service (as compared to pure government administration) the level of tax discount can be tweaked higher or lower, but to remain an incentive to taxable entities a clear discount must exist. (The discount must also continue to exist into the future, though the form in which it is perceived might change. For example, if the PSP also managed to relieve some of the costs incurred by taxable entities in calculating and paying their tax burden by radically simplifying how taxes are handled.)

If the PSP operating costs can be kept low enough, the discounting scheme can never be accused of being a stealth tax. Taxable entities can take advantage of a tax discount at a time when there is an imposed economic austerity. Moreover, they also have greater control over where their taxes go, can opt to select projects that they consider to be the best bidders for some socially responsible task or project, and they can also make strategic investments in non-profit services that might enhance their own business prospects. This latter advantage might not be the opportunity for corruption that it perhaps seems at first. Because if capitalism is going to continue to see a tightening of its belt, then tying company operations to worthy non-profit services might provide a useful transitional model. (That is, even if capitalism as a mechanism eventually sinks, fatally succumbing to its intrinsic tensions, the overall adjustment of the operations of the economy might be lessened by having a functioning PSP-like process already in place.)

V. THE POSSIBLE RISKS

The largest risk on the administration side is that the operating costs of the PSP mechanism cannot be kept low enough to provide an effective discount. An external risk is that there would not be enough operators of social welfare projects willing to propose projects into the system. Hopefully this would be more of a start-up issue. One way to address this might be to introduce the percentage splitting of taxation slowly. So for example, in the beginning the divide might be more like 90% into government coffers and 5% into the PSP scheme, until the balance of operations began to weigh in favour of a more even split. As a corollary, the PSP mechanism also has to be a more efficient way forward from the perspective of non-profit service providers. **In short, the PSP mechanism has to be very simple to use for all parties concerned**.

[1] 67^o. A stochastic economy, 2011. URL `http://www.concept67.net/pdf/economicdesign_p1.pdf`.

[2] Y. Fujiwara and H. Aoyama. Large-scale structure of a nation-wide production network. *Eur. Phys. J. B*, 2010. doi: 10.1140/epjb/e2010-00275-2.