

## Institute for Social Choice and Normative Economics

### Background and Project Outline

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**The Problem:** Since the financial crisis hit in 2008, the awareness of the risks of a free wheeling global economy detached from society at large and the „Idea of Justice“ (Sen 2009) has sharply risen. The ISIPE call for a reorientation of economic studies towards a more pluralistic approach has been broadly welcomed internationally, due to a growing awareness of the intellectual constraints caused by the theoretical predominance of neoclassical and Keynesian theory.

However, in higher education the provision of advanced knowledge in theory and practice about the normative implications of past and contemporary models of capitalism is still a marginal subject. Although universities have increasingly adopted new content on social choice, cooperative and non-cooperative game theory and the normative setting of institutions in their curricula for students of economics and business administration, the „larger picture“ in light of related behavioural, historical and philosophical research is rarely addressed.

**The Background – in Theory:** From 300 B.C. to the 19<sup>th</sup> century economic research and literature has been closely intertwined with normative issues. Aristotle has laid the ground for a moral evaluation of the barter economy and the emergence of money, broadly reflected by authors in the Middle Ages.

In the Renaissance, when the concept of modern capitalism was fully developed by the invention of international trade rules, double bookkeeping, investment and merchant banking, extensive ethical debates took place regarding interest rates and the protection of debtors from usury. The transition from the “passions” to the “interests” as key drivers of the economy in the 17<sup>th</sup> and 18<sup>th</sup> century (Hirschmann 1977) laid the ground for the substitution of ethics by mathematics in economic theory. In the late 19<sup>th</sup> century the algebraic formalisation of neoclassical economic theory, in intellectual rivalry to Marxism, had almost completely banned normative considerations from economics beyond utilitarianism as a new (apparently) “exact science”.

After John Maurice Clark, Hirschmann and others brought the hidden ethical dimension in the development of modern capitalism to new attention in the 20<sup>th</sup> century, economists rediscovered the normative and narrative elements in the mainstream economic discourse.

Kenneth Arrow’s work on general equilibrium analysis opened a new window for “social choice” theory to address normative and institutional issues in market economies, firmly rooted in neoclassical theory. John Rawls integrated social choice strategies in his contractarian framework for a “just” and “fair” society. Rawls’ globally influential work was largely modified by Amartya Sen (2009), who blends behavioural aspects, the plurality of impartial reasoning and the capability approach in order to lay a new ground for normative economics, focusing on the “elimination of outrageously unjust arrangements to enhance global justice”.

Parallel to these ventures of thought leaders at the forefront of social choice theory into the ethics of capitalism, in recent years remarkable contributions were made addressing the narrative dimension, the “grand stories” of economics, by D. Graeber on the history of “Debt” and money, and T. Sedlacek on the “Economics of Good and Evil”. Compared to conventional interpretations of economic development, this narrative-oriented anthropological and historical, even philological research shed an entirely different light on contemporary capitalism and its founding myths, mode of operation, and past and present crises.

**The Background – in Practice:** Many students of economics and business administration at universities and business schools are confronted by a striking disconnect: their textbooks teach them macro- and microeconomic theory in the neoclassical tradition and related analytic tools, policy and management strategies. However, beyond the world of textbooks a growing number of them discover social entrepreneurship and impact investment as key elements of an ethical “re-engineering” of business and finance. But these new “faces” of capitalism are still interpreted in the conventional language and tradition of business administration and finance: how to start a social enterprise, to monitor and maximise social impact, to get management structures right. The education of those instrumental skills is only coincidentally linked to the theoretical research outlined above. As an example, university courses on micro finance ( at Fairfield, New York City, and Leicester University, f.e.) usually don’t address the rich and diverse tradition of social banking in the Renaissance, thus micro finance appears completely stripped of its historical context. Young professionals leave their institutions of higher education, eager to give back to society, without any orientation how to position that moral impulse of “doing good” in their intellectual universe and their social and economic environment. It is time for a modest contribution to change that – by establishing an Institute for Social Choice and Normative Economics.

### **The Vision**

The future of capitalism and its potential transformation towards a more humane economy and society is one of the Great Questions of our time.

The idea to establish the proposed institute emerges from 17 years of practical work with social entrepreneurs in the world of venture philanthropy, constantly challenged by reasonable and unreasonable visions of how to overcome manifestations of injustice generated by modern market economies.

The synthesis of an academic training comprising social choice theory, related behavioural economics, game theory and mechanism design, complemented by narrative research on economic history and the history of economics, may provide a more coherent perspective of a humane economy. Young professionals are empowered to orient themselves confidently in the highly fragmented intellectual debate about the future of capitalism, and will be better prepared for their responsibilities as future decision makers.

### **The Project Carrier – Canopus Foundation**

The Canopus Foundation, a registered private charitable institution under German jurisdiction, was founded in 1997 and has focused its activities in the field of venture philanthropy. Canopus promotes private social investment and social enterprise in order to fight poverty and environmental degradation, and provides business development assistance for social entrepreneurs in developing and transitional economies working in the field of clean energy technologies.

Concurrent with its practical work, Canopus has launched or supported research and publications on impact investment and venture philanthropy, civil society organisations, and social entrepreneurship<sup>1</sup>.

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<sup>1</sup> f.e. Innovative Funding Mechanisms for Social Change (ed. Peter W. Heller), Baden-Baden 2009 (Nomos), see also: [http://en.wikipedia.org/wiki/Canopus\\_Foundation](http://en.wikipedia.org/wiki/Canopus_Foundation) and <http://canopusfund.org/en.html>

## **The Structure of the Institute**

The Institute for Social Choice and Normative Economics will be launched in two steps: at first, a Research and Training Unit (RTU) will be established with a fairly lean structure, largely building upon pro bono inputs by committed and internationally recognised experts, both researchers and practitioners. In a second phase, in order to secure an adequate coordination and administration of its activities and programmes in line with its host university, three full-time positions will have to be secured by its founders for at least a five year start up period. A full professor of the host university and two honorary professors will cover a basic series of lectures and seminars (see template below) and conceive the academic programme of the Institute, cooperations with other research centers and practical field studies / exposure for the students.

## **The prospective Host University**

The host university of the Institute is supposed to be an academic institution fully committed to its course, notably the strategic objective to disseminate advanced knowledge in theory and practice about the behavioural, institutional and historical implications of past and contemporary models of capitalism. This context would be best implemented in the faculty of economics, but philosophy, history or anthropology are valid options, too, or an interdisciplinary approach ranging across different faculties. The Institute for Social Choice and Normative Economics would be entitled to train graduates to obtain Master and PhD degrees at the host university.

## **The Faculty of Economics and Business Administration at Humboldt University, Berlin, and the Canopus Foundation as Potential Partners**

In the higher education environment of Europe, the Humboldt University holds an internationally recognised position of academic excellence. Its Faculty of Economics and Business Administration founded the interdisciplinary Center for Applied Statistics and Economics (CASE) and has built a strong research reputation in behavioural economics, mechanism design / game theory and economic history. This expertise would offer a variety of potential synergies with the proposed Institute for Social Choice and Normative Economics, particularly in the contrasting juxtaposition of mainstream theories and heterodox approaches, and generate a significant research and training surplus.

As examples, the foundation of mechanism design in contract and expected utility theories can be reflected in light of non-utilitarian, non-contractarian schools of thought. Quantitative studies on economic history can be complemented by narrative research, illuminating qualitative aspects in the development of trade, government interventions and finance.

In the practical field, real case studies of social enterprises and impact investing would be provided by collaborations with organisations such as Ashoka International, the Skoll Foundation, and the European Venture Philanthropy Association, building upon the Canopus Foundation's track record and network in the field. Since 2000 Canopus has provided business development assistance to more than 24 social enterprises in South America, Africa and South Asia, including micro finance institutions, manufacturers and distributors of renewable energy systems, and local centers for technical and financial training. To this day, the Canopus model of venture philanthropy has facilitated 8,5 Mio. € of impact investments for its beneficiaries. In 2011, a high social impact investment fund has been initiated by Canopus and Ashoka International for social enterprises which is currently in the process of implementation.

With the privileged access to Canopus' network, master students could apply their studies of economics to concrete business cases in developing and transitional economies, and get a better understanding of the underlying concepts and narratives of social entrepreneurship and impact investing.

### **The Budget**

The start up budget of 300.000 € for the RTU will cover the coordination costs over two years building the academic profile and an initial track record for the future Institute for Social Choice and Normative Economics. The Canopus Foundation would cover 50 % of the RTU costs itself and provide adequate co-finance. For the establishment of the Institute in phase II a budget line of total 1.000.000 € p.a. for the start up period of 5 years should give the Institute and its host university sufficient flexibility to build a larger, however streamlined and cost efficient structure. The budget would be covered by the project carrier Canopus Foundation, by public sector funds and other foundations working in the field of research and education. As soon as an MoU with the prospective host university is signed, the project carrier would start an intense fund raising effort in close collaboration with the host university to secure the 5 year budget for phase I.

## A brief tentative Template of IEC Lectures and Seminars

- I. *Social Choice and Actual Behaviour – Applications to Normative Economics*  
 Rawlsian and post-Rawlsian Concepts of Economic Justice  
 Rationality of Self-Interest, Reasonableness of Fellow Feelings  
 Behavioural Norms for the Choice of Institutions  
 Mechanism Design: the Contractarian and the Comparative Tradition  
*Lit: Arrow/Debreu, Rawls, Hurwicz, Sen*
  
- II. *Entrepreneurship for profit and beyond profit*  
 The Evolution of the Concept of Entrepreneurship  
 The Evolution of the Concept of Social Entrepreneurship  
 Definitions and Theoretical Approaches to Social Entrepreneurship  
*Lit: Schumpeter, Dees, Bornstein, Elkington/Hartigan, Martin/Osberg*
  
- III. *Quantitative and Qualitative Economic History*  
 The Relevance of Historical Research for current Economic Issues  
 The Development of Capital and Labour Productivity  
 The History of Money, Debt, and Interest Rates  
 The History of Impact Investment and Social Banking  
*Lit: Fogel/North, Pickety, Graeber, Ferguson, Yunus*
  
- IV. *Capitalism: A Narrative History*  
 Literature on Life in Capitalism – from Dickens to Zola to Sinclair to Lanchester  
 Founding Myths of Capitalism and Economics  
 Cultural Reflexions on Capitalism  
*Lit: Sedlacek, Muller, Sandel, Sennett*
  
- V. *Industrial and Mental Revolutions, and Spaceship Earth: Macroeconomic Techno-, Psycho- and Enviro-Narratives*  
 The “Zero Marginal Cost Economy”  
 The “Cradle-to-Cradle” Economy  
 Neo-Malthusian Economics and the Limits to Growth  
 “Factor X” and De-Growth Strategies  
 Distributed Capitalism, Presencing  
*Lit: Rifkin, Braungart/Mc Donough, Meadows, Weizsäcker, Daly, Zuboff, Scharmer*
  
- VI. *Eastern Narratives of Normative Economics:*  
 Social Banking in the Orient: the Ethical Rules of Shari’a Finance  
 Buddhist Economics, the Concept of Gross National Happiness  
 A Confucian Economic and Social Order  
*Lit: Çizakça, Schumacher, Jiang, Bell*