Ethical Investment's Visible Hand: Methods And Transformative Potentials

伦理投资中看得见的手：方法与转型潜力

Franz Gassner 弗朗茨·加斯纳

The current economic model and praxis in the long run depletes social life and natural capital. With a globalization process steering off the rails and the national and international institutions seemingly impotent and incompetent, the influence of civil-societal movements may be the only option left to change a monetary-economic regime "that kills" (Francis, 2013, no. 53). "Money must serve, not rule!" (Francis, 2013, no. 58). To make this a reality, the human family has to "seek other ways of understanding the economy and progress" (Francis, 2015, no. 16). To reach this goal, overcoming the widespread responsibility gap within the financial system may begin by debunking the disastrous myth of the "invisible hand", which helped to proliferate irresponsible behaviour. "It is particularly hard to keep agents in line when they have little responsibility for the problems they have caused. That is often the case in finance; bankers are rewarded for decisions long before the effects of these decisions are clear. Finally, even if the invisible-hand assumption were true, it would not be relevant to the modern financial world, in which governments imposed regulations run the monetary system and are usually among the largest participants in the financial market." (Hadas, 2009, p. 41).

Every use of money and all investments comes along with moral and ethical implications. People in fact shape the world, because they "exercise significant influence ʊ er e onomic realities by their free decisions regarding whether to put their money into consumer goods or savings." (Pontifical Council for Justice and Peace, 2004, no. 358). The decision to invest in one place or another, "in one productive sector rather than another, is always a moral and cultural choice". (John Paul II, 1991, no. 36). "Purchasing is always a moral – and not simply economic – act". (Francis, 2015, no. 206).

According to Pope Francis the ethical dimension in the financial and economic system is intrinsic to economic and financial action, it is not an "extra" addition from the outside. "In a word, the ethical dimension of social and economic interaction cannot be imported into social life and activity from without, but must arise from within. This is, of course, a long-term goal requiring the commitment of all persons and institutions within society." (Francis, 2018).

One way of fundamentally and sustainably reshaping the current financial and economic system "from within", is ethical investment with its three main approaches or methods: applying *negative exclusion criteria* (non-demand), the best-in-class-method (demand), and the *engagement method*. "Wealth not only creates the economic basis for institutions and people, but also exerts an influence on the structures of a society. Because you can do something with it, there is an obligation to use this ability responsibly. The w orld o f fi nancial in vestment largely obeys the rules governing the interaction between supply and demand. By investing, you create demand. By excluding certain markets and suppliers, you remove demand from those segments. This can bring about changes in the system." (Financial Investments as Cooperation, 2018, no. 1).

The monetary system with its inherent power and possibilities of transactions and societal transformation must be guided by consistent compliance with clear moral and ethical principles, not primarily by profit and a maximisation of returns for investors and shareholders (CDF, 2018), as this will harm in the long run all actors and the ecosystem. Ethically oriented people in their role as consumers and investors have the potential to pave the way for a "cultural revolution" (Francis, 2015, no. 114) to stir a transformation of monetary and economic structures in view of a model and praxis that serves people and the planet instead of excluding and destroying them. Ethical investment turns out to be a significant tool for transforming the current financial and economic model.

The first step in ethical investment is compliance with *exclusion criteria*, which are intended to prevent any investment supporting unacceptable or ambiguous social and environmental behaviour or results. In principle, exclusion criteria must be applied consistently in all cases (e.g. exclusion of atomic energy; drugs; child labour; pornography). In less clear-cut cases, such exclusion criteria are set relatively and apply then only under expressly specified conditions (automobile industry; fossil fuels).

The second method is called *best-in-class-approach*. Within this method, investments not affected by an exclusion criterion are evaluated using positive and negative scores, which results in a ranking of respective investments and companies. In critical sectors, only the "most sustainable" investment, company, or country should be chosen to be eligible for investment. With this method a "role model effect" is intended and created, which helps to raise the overall standards in the particular economic field and sector (positive incentives). But this method requires multiple specialists and research in view of a consistent evaluation in order to produce evidence to meet the set standards and criteria.

The third method is called *engagement*, which refers to a general and overall improvement in mutual understanding, communication and deepening of awareness and levels of responsibility among involved or participating actors, e.g. regarding the particular criteria under which ethically oriented consumers and investors are likely to invest. For instance, shareholders can use and pool their speaking and voting rights (voting strategy) at the annual general meetings, which will exert a certain influence over management decisions and taken directions and implementation in order to avoid damage. Also, the voice strategy can be chosen as a method and form of engaging in direct and constructive dialogue with an actor about specific ethical issues and in view of improvements. This dialogue can be conducted either critically but also positively aiming to encourage improvements. For a hitherto excluded company, this method can lead to an entrance strategy, if the performance of the company improves and reaches the point to meet the condition to overcome the exclusion. But this method can also lead negatively to an "exit strategy" (divestment).

Financial actors, institutions, and rating agencies engaging in ethical investment have to enter a transparent and open debate "as to the ethical criteria for their practice" (German Bishops' Conference, 2010, p. 51). These criteria must be evaluated continually in order to meet in-house norms but also internationally-recognized standards, e.g. the ILO Core Labour Standards, or the OECD Guidelines for Multinational Enterprises to prevent tax evasion and corruption. The development and enhancement of such standards need close attention and ongoing research, as they help "to establish binding minimum standards and to generally spread them, they make a major contribution towards transparency of the market, and hence also towards and effective governance of the corporations sector." (German Bishops' Conference, 2010, p. 54). Due to its intrinsic ethical roots and transformative potential, ethical investment can be an important building block for a new economy, that serves rather than destroys.

~

Franz Gassner, Faculty of Religious Studies and Philosophy, University of Saint Joseph, Macau SAR China

References 参考资料

- CDF (2018). Congregation for the Doctrine of the Faith/Dicastery For Promoting Integral Human Development, *Oeconomicae et pecuniariae quaestiones*: Considerations for an Ethical Discernment Regarding Some Aspects of the Present Economic-Financial System, May 17th 2018. Retrieved from https://press.vatican.va/content/salastampa/en/bollettino/pubblico/2018/05/17/180517a.html
- Financial Investments as Cooperation (2018): Ethical investment guidelines of the Austrian Bishops' Conference and the religious orders of Austria. In: *Amtsblatt der Österreichischen Bischofskonferenz* Nr. 74 (1st January 2018).
- Francis (2013). Apostolic Exhortation *Evangelii Gaudium* (The Joy of the Gospel). Retrieved from https://press.vatican.va/content/salastampa/en/bollettino/pubblico/2018/05/17/180517a.html
- Francis (2015). Encyclical Letter *Laudato Si'* (On Care for our Common Home). Retrieved from http://www.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html#_ftn146
- Francis (2018). Address of His Holiness Pope Francis to Participants in the Congress organized by the *Centesimus Annus*-Pro Pontifice Foundation, Sala Regio, Saturday, Saturday, 26 May 2018 [Multimedia]. Retrieved from http://www.vatican.va/content/francesco/en/speeches/2018/may/documents/papa-francesco_20180526_centesimus-annus.html
- German Bishops' Conference (2010). *Changing the World through investment? An aid to orientation on ethically-related investment*. A study by the Group of Experts on "World Economy and Social Ethics". Research Group of the German Bishops' Conference on the Universal Task of the Church. Bonn.
- Hadas, Edward (2009). *The Credit Crunch: Making sense of the financial crises*. London: Catholic Truth Society.
- Haughey, John C., S.J. (1986). *The Holy Use of Money: Personal Finances in Light of Christian Faith*. Garden City, New York: Doubleday & Company.
- John Paul II (1991). Encyclical Letter *Centesimus Annus* (On the Hundredth Anniversary of Rerum Novarum). Retrieved from http://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus.html
- Pontifical Council for Justice and Peace (2004). *Compendium of the Social Doctrine of the Church*. Retrieved from http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20060526_compendio-dott-soc_en.html