# TRUSTING

## The Independent Financial Advisor

CIFA www.cifango.org

€35 – N°13 – January/June 2018


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TO BREAK THE RULES, YOU MUST FIRST MASTER THEM.
THE VALLÉE DE JOUX. FOR MILLENNIA A HARSH, UNYIELDING ENVIRONMENT; AND SINCE 1875 THE HOME OF AUDEMARS PIGUET, IN THE VILLAGE OF LE BRASSUS. THE EARLY WATCHMAKERS WERE SHAPED HERE, IN AWE OF THE FORCE OF NATURE YET DRIVEN TO MASTER ITS MYSTERIES THROUGH THE COMPLEX MECHANICS OF THEIR CRAFT. STILL TODAY THIS PIONEERING SPIRIT INSPIRES US TO CONSTANTLY CHALLENGE THE CONVENTIONS OF FINE WATCHMAKING.
ROYAL OAK CHRONOGRAPH
IN PINK GOLD
AUDEMARS PIGUET
Le Brassus
AUDEMARSPIGUET.COM

# TRUSTING

**The Independent Financial Advisor**

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70 across the globe

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A Non-Profit Foundation

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Swiss Association of Independent Financial Advisors, S.A.I.F.A.

CIFA INITIAL CONTRIBUTOR

# FROM FOUNDATION TO PRESENT

**CIFA**, a non-profit Swiss foundation, was setup in Geneva, Switzerland, in December 2001, aiming to become the ideal contact point for financial advisors and wealth managers, as well as legislators and regulators.

With individual investors' needs in mind, CIFA chose to focus on enhancing the basic status *(the very foundations of their independent businesses)* of IFAs around the globe, by promoting the highest professional standards, best-practice rules and ethical rules.

These specific goals have been pursued relentlessly by CIFA, which has the highly impressive ability to approach them from several interesting angles through the intelligent selection of renowned international speakers. Each year, the appropriateness of topics discussed, the excellence of presentations and relative round-table discussions have been remarkable.

By 2007, CIFA had already become an **NGO** *(non-governmental-organization)* in "**special consultative status**" with **UN's ECOSOC**, the United Nations' Economic and Social Council. CIFA attends and speaks at several UN gatherings organized at the initiative of the General Assembly, ECOSOC, UNCTAD, UNITAR, FOSS, etc.

A year later, in 2008, **"THE CHARTER OF INVESTORS' RIGHTS"** *(www.cifango.org)*, developed under the supervision of UN's ECOSOC, was introduced during the CIFA's VI$^{th}$ Forum held in Prague, The Czech Republic. Finally, the basic rights of investors were taken into account in finance!

In February 2015, The **United Nations** reclassified CIFA to the "**general consultative status**" with the **UN-ECOSOC**. As a result, CIFA joined the select UN club of 143 NGOs accredited to interact during UN thematic debates.

# CIFA'S INTERNATIONAL FORUMS IN PAST YEARS

Through the years, CIFA Forums were held in Geneva *(2003 through 2007)*, Prague *(2008)*, Paris *(2009)*, Madrid *(2010)* and Monaco since 2011 to present.

2003 — WHAT CHALLENGES FOR INDEPENDENT FINANCIAL ADVISERS?

2004 — REINVENTING TRUST

2005 — LET'S PROVOKE A DIALOGUE WITH THE REGULATORS

2006 — LEGISLATION AND REGULATION: REAL PROBLEMS, POOR SOLUTIONS!

2007 — LET'S FACE THE FUTURE!

2008 — INVESTOR'S FREEDOM OR CONSUMER'S PROTECTION?

2009 — RECURRING FINANCING JOLTS & CRISES: Advance warning signs of a New Economic World Order

2010 — FINANCIAL BUBBLES AND REGULATORY BUBBLES

2011 — ETHICS AND GOVERNANCE IN FINANCIAL MARKETS FINANCIAL SERVICES - Reform or Die?

2012 — 2012, ELECTION YEAR: WHAT CHALLENGES FOR THE INTERNATIONAL FINANCIAL SYSTEM? Ethics, Politics and Finance

2013 — CAN THE WORLD FINANCIAL SYSTEM BE REFORMED?

2014 — THE NEW PARADIGM FOR WEALTH MANAGERS Freedom, Regulation, Transparency, Taxes, Rule of Law, Expropriation, Privacy and much more!

2015 — PUBLIC DEBTS & DEFICITS, UNRESTRAINED TAXATION: WHO WILL PAY?

2016 — EXCESSIVE REGULATION: IS IT REALLY INTENDED TO GUARANTEE ENTREPRENEURIAL FREEDOM AND PROPERTY?

2017 — OUTSIDERS IN POWER: WILL THEY TEAR DOWN THE EXISTING MODEL? WHAT NEW MODEL DO THEY PROPOSE?

2018 — REPEAL AND REPLACE AN ECONOMIC MODEL UNDER ATTACK? How Technological changes are disrupting the socio-economic-fiscal-political models? Which alternative model should be built?

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# THE CHARTER OF INVESTORS' RIGHTS

This Charter has as its goal the definition of the fundamental and inalienable rights of the investor.

The Charter was drafted by the Convention of Independent Financial Advisors (CIFA), a non-governmental organization with consultative status at the Economic and Social Council of the United Nations.

CIFA is the possessor and custodian of this Charter.

The Charter aims to underline the principles, both straightforward and permanent, of the investor so as to benefit from a legal framework which preserves private property and comprises goods resulting from the activities, be they personal property or intellectual, of the investor.

The Charter attempts to respect the legislation, traditions and customs of all the countries which ratify it.

## Article 1

Private property is protected according to the contents of this Charter of investors' rights. Private property is defined as the entirety of goods and rights that exist, as well as all revenue and obligations relating to it that are not recognised as the property of a member state of the United Nations. Private property resulting from ancestral, historic or tribal rights is equally covered by this Charter.

## Article 2

Only private property constituted or acquired under universally accepted moral norms is protected by this Charter. All private property acquired or constituted under constraint or duress, or by way of intimidation or any other criminal manner, is excluded from protection by this Charter.

## Article 3

The investor is a person, physical and moral, who is in possession of the right of disposal of his or her private property and is, simultaneously, the beneficiary of income and obligations which accrue to him.

## Article 4

All acts of expropriation or confiscation of private property and revenues are forbidden. All investors have the right to protect themselves, by all legal means, against all acts of expropriation or confiscation by a state or private organization that is directly or indirectly subordinated to it.

## Article 5

The investor has the right, freely and without constraint, to dispose of the totality of all of his or her assets which constitute his private property as well as the income attributable and conforming to their needs and aspirations. Any restrictions on the rights of disposal of these goods are not acceptable without the agreement of the owner who gives free consent without constraint.

## Article 6

The investor has the right to protection of his private sphere. The investor is the sole decision-maker regarding the choice of means of investment structure which guarantees the best protection for his private sphere.

## Article 7

The investor has the right to use his best judgement to find the most appropriate way for his private property and revenue to yield a profit. He has the right freely to choose the structures and institutions that he judges will more than adequately accommodate the components of his private property as well as the revenue which results.

## Article 8

The investor undertakes to arrange his assets in a manner that respects the habits, customs as well as the legal framework of the countries in which he invests.

## Article 9

The investor has the right to expect from states and governments good structures, supervision and adequate surveillance of the market place. He or she is free, and at the same time personally responsible, for all investments which proceed forth.

## Article 10

The investor undertakes to respect the fundamental rights of mankind as defined in the Charter of the United Nations.

# Going Beyond A "Duty of Care" to a "Culture of Care"!

Will technology contribute to or erode public trust? Our upcoming May 2018 CIFA Conference in Monaco is going to be a pivotal one. It will encourage dialogue and offer possible answers to the provocative questions around the impact of technology on the existing socio-economic-fiscal-political models.

It is no secret that technological changes are disrupting the existing models at all levels around the globe today. Whether it's UBER, Facebook, Amazon, or closer to our profession, robo-advisor and fintech, the complex consequences to the existing business models are too numerous to adequately list. Combined, they create an unprecedented disruption never seen by financial intermediaries, politicians, economists, academics, governments at all levels, and society at large.

In our profession, trust represents the Holy Grail, as it is the bedrock upon which clients build confidence in financial intermediaries, regulators and the capital markets. Without it, consumers' success may be questionable and the entire financial system disintegrates. Thus, it is imperative that we don't trade trust for technology. Instead, we must put technology in its proper place as a utility, not a substitute, for the independent financial advisor. Jobs, routines, etc. can be delegated, trust cannot! Technology leveraged by the advisor can, however, bring numerous benefits if integrated properly in the new or evolving advisory business model.

For this to happen, we need to go beyond mandating the duty of care as regulators can only go so far in maintaining trust in financial advisors. As the regulators prescribes standards, make rules and enforce compliance whether business is conducted by a human advisor in the marketplace or robo-advisor in cyberspace. Making individuals as well as firms accountable regardless of the degree of technological integration is a good start, but it is only one piece of the puzzle.

The other piece is for organizations and other stakeholders to embrace and adopt Corporate Social Responsibility (CSR) and intentionally build human capital, something that is at the heart of The United Nations-ECOSOC *(Economic and Social Development)* Division. CIFA, through the collective voices of its 70+ organization affiliates *(representing over 1 million advisors worldwide)* provides a vital channel to the UN regarding financial policies, funding and implementing SDG *(Sustainable Development Goals)* projects. Eradicating poverty while enhancing financial literacy can only come about if all the key players go beyond a "mandated" duty of care to a "chosen" culture of care that promotes creativity and generosity rather than greed and destructiveness. It is not ethics versus profitability, rather ethics and profitability in a culture of care economy!

Tony Mahabir
President of CIFA

Of course, our Conference in Monaco will contribute to this CSR mandate and its impact on sustainable and resilient societies in rural and urban communities around the globe. So, we strongly encourage you to be there and participate fully. We have leaders from the United Nations, Group of 77, UNCTAD, Academics from renowned business schools, thought leaders from the CATO Institute, Caux Round Table, international regulators and government bodies, tax and economics experts, fintech specialists, and many other change practitioners and more.

CIFA INITIAL CONTRIBUTOR

# A GROUP OF SWISS IFAs

... CARING ABOUT PRINCIPLED PROFESSIONALISM

AND

UNBIASED DEDICATION TO CUSTOMERS' NEEDS ...

## Groupement Suisse des Conseils en Gestion Indépendants

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***

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PRELIMINARY PROGRAM
XVI^TH INTERNATIONAL CIFA FORUM
MONACO, MAY 21-23, 2018

# REPEAL AND REPLACE AN ECONOMIC MODEL UNDER ATTACK?

## HOW TECHNOLOGICAL CHANGES ARE DISRUPTING THE SOCIO-ECONOMIC-FISCAL-POLITICAL MODELS? WHICH ALTERNATIVE MODEL SHOULD BE BUILT?

### Monday, May 21

**14:30 Official opening ceremony by Jean-Pierre Diserens,** Secretary-General of CIFA

**14:35 Welcome address by Tony Mahabir,** President of CIFA

**14:45 Welcome address by the Moderator for the Day**
**Hanifa D. Mezoui, PHD,** Senior Advisor Humanitarian Affairs and Civil Society, United Nations Alliance of Civilizations (UNAOC)

**14:50 Keynote Speakers:**
**H.E. Mr. Nassir Abdulaziz Al-Nasser,** UNAOC High Representative, United Nations, Chair of the Group of 77 for 2011

### UN DEVELOMENT AGENDA 2030

**15:10 THEME 1: TRANSFORMATION TOWARDS SUSTAINABLE AND RESILIENT SOCIETIES**

**Invited Speakers:**
**H.E. Mr. Mohamed Fathi Ahmed Edrees,** Ambassador Permanent Representative of Egypt to the United Nations, Chair of the Group of 77 for 2018
**Daniela Bas,** Director, Division of Social Policy and Development (DESA)
**Chantal Line Carpentier,** Chief, UNCTAD New York Office, Office of the secretary General
**Valerie Bruell-Mechior,** Deputy Permanent Representative, Mission of the Principality of Monaco to the United Nations (TBC)

16:30 *Coffee Break*

**16:50 THEME 2: FROM GLOBAL TO LOCAL SUPPORTING SUSTAINABLE AND RESILIENT SOCIETIES IN URBAN AND RURAL COMMUNITIES**

**Invited Speakers:**
**H.E. Mr. Horacio Sevilla Borja,** Ambassador Equator, Chair of the Group77 for 2017, United Nations
**H.E. Mr. Virachai Plasai,** Ambassador of the Kingdom of Thailand, Chair of the Group77 for 2016, United Nations (TBC)
**H.E. Mr. Merzak Belhimeur,** Ambassador, Senior Adviser - Ministry of Foreign Affairs, Algeria. Former Chief Negotiator of the Group of 77
**Louise Kantrow,** Former International Chamber of Commerce (ICC), Permanent Representative to the United Nations
**Lila Karbassi,** Chief Programmes, United Nations Global Compact

**Concluding Remarks:**
**Mourad Ahmia,** Executive Secretary, Group 77
**Francois Loriot,** President, Bar Association for IGOs
**Reda Mezoui,** Docteur d'Etat en Sciences Politiques, Algiers University

19:00 End of the first day

20:00 Dining Cocktails

### Tuesday, May 22

**9:00 Welcome address by the Chairperson for the Day**
**Afaf Konja,** Communication Specialist: Media and Public Relations

**9:15 THEME 1: DESTABILIZATION OF THE TRADITIONAL ECONOMIC-SOCIAL-POLITICAL SYSTEM THREATENED BY THE SHARING ECONOMY AND UBERIZATION MODEL**

**How will these new realities impact the economic model based on wage?**
**How seriously will sharing economy / uberization destabilize the global social, political and fiscal systems?**
**What is the common good and how to defend it?**

- Uberization: "fast and furious" progress *(work made increasingly liberal)* or backward evolution *(a return to a proletarian system)*?
- Impact of uberization on the Welfare State and fiscal sustainability of States?
- How to adapt/reinvent social protection and fiscal rules in the uberized economy?
- How to define "common good" and have it prevail over the destabilization of social and fiscal systems?

**Confirmed Moderator:**
**Daniel Mitchell,** Chairman, Center for Freedom and Prosperity

**Confirmed Speakers:**
**Grégoire Leclercq,** President, French Self-Employed Federation, Deputy Managing Director, Groupe EBP, Paris
**Philippe Silberzahn,** Professor Strategy & Organisation, EMLyon Business School, Lyon

10:50 *Coffee Break*

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# PRELIMINARY PROGRAM XVI$^{TH}$ INTERNATIONAL CIFA FORUM MONACO, MAY 21-23, 2018

## 11:10 THEME 2: THE FINANCIAL AND MONETARY SYSTEM UNDER ATTACK

**Crypto-currencies, shadow banking, over-indebtedness of States: have States and central banks become powerless to govern the increasingly complex financial world?**

- What risks and opportunities do crypto-currencies imply?
- Should Central Banks embrace digital currencies as the BIS recommended? Central Banks should consider introducing their own cryptocurrencies, wrote the Bank for International Settlements (BIS) in its September 2017 Quarterly report where it presented the "new taxonomy of money". Is this a symptom that authorities are losing control over their monetary systems?
- Shadow banking: does it symbolize financial regulation's failure? Is it good or bad for the overall economy?
- Over-indebtedness: are States able to counter the next financial crisis?

**Confirmed Moderator:**

**William K. Black,** Member of CIFA's Advisory Board, Associate Professor of Economics and Law, University of Missouri-Kansas City, USA

**Confirmed Speakers:**

**Miranda Goeltom,** Former Governor of the Indonesian Central Bank

**Fauzi Ichsan,** Chief Executive Officer of Indonesia Deposit Insurance Corporation

**Malcolm Knight,** Distinguished Fellow, Centre for International Governance Innovation, Summit, New Jersey, former General Manager of the Bank for International Settlements (BIS)

**Didier Geiben,** Galitt board member, Izicap Fintech Associate

12:45 *Networking Lunch*

## 14:15 Message from AMAF - Monaco

**Hervé Ordioni,** President, Committee for Promotion of Monaco as Financial Center, Monaco Association for Financial Activities, Principality of Monaco

## 14:45 THEME 3: TO WHAT EXTENT ARE AUTOMATIZATION AND ROBOTIZATION DESTROYING JOBS TO THE POINT OF SERIOUSLY THREATENING THE CURRENT ECONOMIC SYSTEM?

**Automatization and robotization: Is widespread automatization of the economy and the resulting loss of jobs calling for a new economic model?**

**What risks and opportunities emerge within new trend of widespread automatization?**

- Understanding disruptive technologies and their industrial and macroeconomic consequences?
- Taking the measure of automatization: why employment becomes marginal *(myth and reality)*?
- How to restore the economic system solvency endangered by automatization? How to wisely redistribute the productivity gains *(resulting from robotization)* to make the global economic system solvent again? Is a universal basic income the adequate tool? What are the alternatives?
- How different economic systems are being impacted by automatization: examples of China, USA, Germany?
- What issues might result from the transition towards the new economic model?
- What future for financial investments in a fully automated economy?
- Taxing the robots: is it a meaningful idea?

**Confirmed Moderator:**

**Stephanie Kelton,** Ph.D., Professor of Public Policy and Economics, Stony Brook University, USA

**Confirmed Speakers:**

**Paul J. J. Welfens (EIIW),** President of the European Institute for International Economic Relations, Wuppertal (Germany)

**Xavier Oberson,** Professor of Swiss and international tax law at the University of Geneva; Partner at Oberson Avocats, Geneva, Switzerland

**Philippe Silberzahn,** Professor Strategy & Organisation, EMLyon Business School, Lyon, France.

16:30 *Coffee Break*

## 16:50 THEME 4: FORCES OF RESISTANCE TO TECHNOLOGICAL AND ECONOMIC CHANGE AND THE RE-EMPOWERMENT OF DEMOCRACY AND SOCIETY

**To face up the powerful disruptive change, induced by the Behemoths of the digital economy, globalization, and financialization of the economy, are populism and deglobalization the adequate responses to regain control of the future?**

- Controlling the FAANGs (Facebook, Apple, Netflix, Alphabet, Google): utopia or necessity?
- Deglobalization: Is it possible? Is it desirable? Is it the right solution to slow down or reorientate the radical technological changes now taking place for the common good?
- Populism/Trumpism: a new force at the service of the "old world" or a new positive influence facing globalization, financialization and automatization?

**Confirmed Moderator:**

**Stephen B. Young,** Global Executive Director, Caux Round Table, St. Paul, Minnesota, USA

**Confirmed Speakers:**

**Joe Oliver,** Canadian politician and former Minister of Natural Resources (2011) and former Minister of Finance (2014)

**Jean-Michel Treille,** Former member of the French National Planning Agency, GAPSET President

18:30 End of the second day

20:00 Patrons' Dinner at the Hotel Hermitage 'by invitation only'
*(Black tie suggested)*

## Wednesday, May 23

This day is a free networking day for participants to the Forum.

All events, without exceptions, you might be invited to attend are neither supported nor endorsed by CIFA.

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# REGISTRATION FORM
# XVI^TH INTERNATIONAL CIFA FORUM
# MONACO, MAY 21-23, 2018

## INFORMATION AND REGISTRATION

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Laurence Genevet: lgenevet@epi.mc
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## REGISTRATION POLICY AND PAYMENT

Registration will be final upon receipt of your payment.
Substitutions within the same company are accepted with prior approval of CIFA.

## FEES (VAT INCLUDED)

| | |
|---|---|
| Forum May 21-22, 2018 | 1,000 € |
| Forum 1 day | 500 € |

Active members of Partner Associations: 50% discount

The Patron's Gala Dinner on May 22 is only accessible by separate special invitation.

## REFUND POLICY

A cancellation fee of 50% of the invoiced amount applies for all cancellations.
No refund for cancellations received after April 20, 2018.

## CONGRESS' DATES AND VENUE

Monday, May 21, 2018
Tuesday, May 22, 2018
Hôtel Hermitage, Square Beaumarchais
98000 Monaco
Tel : + 377 98 06 40 00

*N.B.: CIFA reserves the right to change the program and/or the hotel reservation if, despite its best efforts, circumstances force it to do so.*

*Dear CIFA, Yes I wish to participate to the Forum:*

Are you an active member of one of CIFA's Partner Associations? ☐ Yes ☐ No

If yes, which one? ______________________

Last name ______________ First name ______________

Position ______________ Company ______________

Address ______________________

Postal Code ______________ City ______________ Country ______________

Tel. ______________ Fax ______________ E-mail ______________

Date ______________ Signature ______________

YES, I wish to register for the XVIth International Forum of the Convention of Independent Financial Advisors (CIFA) and I choose:

☐ Forum May 21-22 ☐ Forum May 21 ☐ Forum May 22

## ACCOMMODATION

**Hôtel Hermitage**

Should you wish to stay at the forum venue, the Hôtel Hermitage, please note that CIFA has reserved a limited number of rooms at a prefential rate.
You can proceed with your booking by proceeding to the following website:

**http://cifa2018.resa.sbm.mc**

## PAYMENT

You will receive an invoice.

Your registration will be final upon receipt of your payment.

www.cifango.org

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# PATRONS' PROPOSALS
# XVI$^{TH}$ INTERNATIONAL CIFA FORUM
# MONACO, MAY 21-23, 2018

**IMPORTANT: Please note that the FORUM is "By Invitation Only"**

## Table at the Patrons' Dinner (May 22$^{nd}$) — 5,000 € (VAT not included)

- 1 Table of 8 at the Patrons' Dinner:
  - The name of your company will be displayed on your table.
  - You can select among participants to the Forum those you wish to invite at your table.
- 2 Personal Badges including admission to the Convention, to the Cocktail and the Patrons' Dinner

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I support the effort of the Foundation with a donation of ...................... €.

- ☐ My name will appear on the Donors' list on the Forum's program.
- ☐ No, I do not wish to appear on the Donors' list.

Name ........................................................................ Company ....................................................................

Phone ...................................................................... Email ..............................................................................

# ALL DONATIONS ARE IMPORTANT !

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**Comité Organisateur du Forum de la CIFA (Convention of Independent Financial Advisors)**
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Email: lmauron@cifango.org

www.cifango.org

# LUKÁŠ KÁNDL

**www.kandl.net** **www.libelluleart.com**

*Crowned Vertumnus - Tribute to Arcimboldo*
*195 x 130 cm - oil on canvas*

*Schrödinger's cat*
*195 x 162 cm - oil on canvas*

*Leda and the swan*

*The tiger is dreaming about birds*

*My favourite nest*

*Tricolour meeting*

*35 x 27 cm - oil on rare wood panels*

*Born in Prague in 1944 and graduated from Prague Academy of Fine Arts, Lukáš Kándl adopts the old masters' techniques of oil on canvas, panel and copper. Leader of the Magic Realism movement, he counts more than 100 solo exhibitions and over 400 group shows.*
*He is also the creator of the Libellule Art movement.*

*Among Kandl's next exhibitions:*

*Viechtach (D) - Divinities half-human half-beast - September 8, 2018 - March 3, 2019*
*Bratislava (SLK) - Tribute to Masters - October 1 - 31, 2018*
*Saint-Emilion (F) - Le passage de la Cadène gallery - Permanent exhibition*

# SOCIAL CAPITAL and SOCIAL RESPONSIBILITY

"56TH COMMISSION FOR SOCIAL DEVELOPMENT"
5 FEBRUARY 2018

## MODERATOR:

**Ms. Cosima F. Barone, Financial Analyst**

## OPENING REMARKS:

**Ms. Daniela Bas, Director DSPD/UNDESA**

## PANELISTS:

**Mr. Jean Pierre Diserens**
Secretary-General, CIFA

**Ms. Judit Arenas**
Deputy Permanent Observer to the UN, International Development Law Organization

**Mr. Stefano Severi**
Head of Cocoa, Palm Oil & Environment - Sustainability Department, Ferrero

**Mr. Kurt Bodewig**
Chairman, Baltic Sea Forum

**Ms. Louise Kantrow**
Former Ambassador, International Chamber of Commerce, Permanent Representative , New York

## DISCUSSANTS:

**Mr. Tony Mahabir**
Chief Executive Officer, Canfin Financial Group of Companies

**Ms. Deisi Noeli Weber Kusztra**
President, World Family Organization

**Mr. Angus Rennie**
Senior manager, Partnership and UN Relations, UN Global Compact

**Ms. Chantal Line Carpentier**
Chief, UNCTAD, Office of the Secretary

**Mr. Steven B. Young**
Founder, The Caux Round Table

## CONCEPT NOTE:

The private sector and civil society play an important, complementary role alongside Member States in achieving SDG 1 that aims to eradicate poverty.

Corporations are eager to take on business that ensure corporate social responsibility (CSR), leading to poverty eradication and well-being for all.

However, they need to generate the social capital that enables market institutions to successfully implement these goals *(i.e. trust, norms of reciprocity, and networks for collective action)*.

Peace, freedom, cultural diversity, security, and development need to be given concrete reality by the actions of governments, CSOs, private business and committed people in every locality and region of the world.

This calls for a new ethic of global responsibility, an ethic of corporate social responsibility that must permeate every level of public and private life.

We can only achieve our economic and social goals if all those affected are included in the decision-making process.

We all share a collective responsibility for ensuring the prosperity and well-being of those currently alive and all who come after us.

## Objective(s) of the event:

The objective of the event is to encourage the private sector to focus not only on protecting private interests, but also on fulfilling our social and economic commitment to our stakeholders and the communities in which they live.

The event featured an interactive panel discussion on how to bring continuity to industry actions promoting sustainability and how the private sector can support the SDGs in a targeted manner.

> "Economic and Policy Stability, as well as Rule of Law, are needed to build 'TRUST' between the private and public sectors."

## Main points from the discussion:

► **Jean-Pierre Diserens**, Secretary General of CIFA, expressed his concern that excessive regulations and taxation have become dispiriting factors for investors and entrepreneurs, as well as a job-killers, especially for Small to Medium Enterprises (SMEs). He advocated for building trust in government institutions and fighting corruption in order to stimulate private sector growth, which in turn will promote economic development and eradicate poverty. He concluded by saying that economic and policy stability, as well as rule of law, are needed in order to build trust between the private and public sectors.

► **Louise Kantrow**, former Ambassador at the International Chamber of Commerce, spoke of the dramatic shift that had taken place in the United Nation's attitude toward the business sector, shifting from one of suspicion to an appreciation that it has the operational and financial capacity to initiate and implement sustainable development programs, in a way that the public sector sometimes does not. The UN should capitalize on this shift in order to finance the implementation of the action-oriented Sustainable Development Goals. Businesses should ensure the implementation of SDGs because businesses cannot thrive in societies that are not resilient.

► Representing the International Development Law Organization (IDLO), the only intergovernmental organization exclusively devoted to promoting the rule of law, **Judit Arenas** highlighted that rule of law is critical to economic development. Sustainable development is not possible without the presence of accountable and transparent institutions which ensure that individuals' rights are respected. The private sector can do much to eradicate poverty and promote sustainable development, but they themselves need to be transparent and subject to scrutiny. She concludes that investing in the rule of law is an integral part of sustainable development and that, by strengthening institutions and empowering people, the rule of law ensures justice and accountability and, as result, build resilient societies. The more the international community invests in the rule of law, the better equipped we will able to build sustainable peace.

► **Stefano Severi**, Head of Cocoa, Palm Oil & Environment at the Sustainability Department of Ferrero, underlined the importance of digital technologies in helping to achieve a more sustainable and competitive farming sector in countries in West Africa. He highlighted that efforts in the private sector should be directed to solve problems, such as child labor and lack of education through innovative initiatives aimed at fighting poverty at its root causes. An example of a good practice is how Ferrero is directly targeting cocoa farmers through efforts to improve their health, education, access to technology, etc.

► **Kurt Bodewig** highlights that the best method through which poverty eradication could be achieved is improving access to education and jobs as well as encouraging ethical responsibility in the private sector. Corruption, which is a problem in developed and developing countries alike, needs to be addressed in order to build resilient societies. He noted that a strong infrastructure is essential to a functioning market in which businesses can thrive. Bodewig mentions the importance of following the example of social initiatives conducted in his home city Hamburg which aim to promote corporate social responsibility.


DANIELA BAS


KANTROW
JEAN PIERRE DISERENS
COSIMA BARONE


STEFANO SEVERI
JUDIT ARENAS
LOUISE KANTROW


COSIMA BARONE
DANIELA BAS
HESSA ALAT






RUSSIAN



KURT BODEWIG

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# Why is business embracing the Global Sustainable Goals?

*"The views expressed are those of the author and do not necessarily reflect those of the United Nations"*

* * *

## Chantal Line Carpentier

Chief of UNCTAD New York

In December 2016, only one year after the adoption of the Sustainable Development Goals (SDGs), I was invited to speak at the Financial Times' ***"Investing for Good: Innovative Finance as a Force for Global Change"*** event *(https://live.ft.com/Events/2016/FT-Investing-for-Good-USA-2016)*. During the oversubscribed session, we learned that BlackRock had already issued several financial instruments aligned with the SDGs, including an ETF; and that CapRock Group and B Lab had already aligned their investment criteria with the SDGs. Similarly, Trillium and Calpers announced at the UN Capital Markets Global Summit: ***Aligning Capital with the UN SDGs*** that they put the SDGs metrics into their investment criteria.

Earlier in 2017, I was pleasantly surprised to learn at the Ideagen Technology for Good Summit held in Silicon Valley, that allowing employees to work on the SDGs was used as attraction and retention of talent in this competitive environment.

A month later, as I chaired a Panel dedicated to the SDGs at the Ceres Conference in San Francisco *(http://www.cvent.com/events/ceres-conference-2017/event-summary-54fa059f4b5e4e7495f2155223ab92cb.aspx)*, I was likewise fascinated to learn that a company like Novozym, which was active during the Rio+20 and SDGs negotiations, see value in the Voluntary National Reviews *(VNRs - Countries are invited to voluntary report the process they use to prioritize and cluster goals, the institutional mechanisms put in place to ensure follow-up, and how SDGs are integrated into national development plans and aid support (for developed countries), including any reallocation of budgets and institutional resources toward implementation. https://sustainabledevelopment.un.org/inputs/)* as they add certainty that investment will flow in sectors identified as priorities in the countries' VNRs.

A lesson learned from the MDGs was that internationally agreed goals do help align national and international resources with these goals.

Paul Polman, CEO of Unilever, called the SDGs the Roadmap for the world and John Danilovich, President of the International Chamber of Commerce, labeled the SDGs "the new Business Development Goals".

## The "We the peoples" SDGs

The SDGs have been negotiated and adopted by all countries and all stakeholders in an unprecedentedly inclusive, participatory and collaborative process over a two-year period. They are the result of genius as well as luck and timing. The concept of the SDGs and the mandate to negotiate them emanated from the Rio+20 Conference. The Conference reviewed progresses achieved since the Earth Summit held 20 years earlier, especially the unprecedented halving of people leaving in poverty. But also, the 2.6 billion lacking access to modern cooking facilities, 2.5 billion to sanitation facilities, 1.3 billion to electricity, and 750 million to clean water.

Reviews also showed that globalization increases the integration of economies and ideas around the world, particularly through trade and financial flows, and to a lesser extent movement of people. But this unprecedented interdependence has led to a skewed distribution of benefits leaving a large part of the population excluded from the economic and financial system, resulting in raising inequalities within country as we focused on reducing inequalities among countries. Growing inequalities has led to the rise of the extreme right, call for de-globalization, protectionism and nativism. The SDGs, negotiated in the aftermath of the financial and food crisis, have an underlying principle – leaving no one behind. Unlike the MDGs, Agenda 2030 and its 17 goals attempt to tackle the root causes of poverty and inequality. SDG 5 targets gender inequality and SDG 10 addresses inequality within and between countries. The SDGs are the purpose that was missing from globalization.

As the SDGs were developed in an open and participatory way, they have galvanized all sectors around the world, which is unprecedented in UN's history. The next two years offer a one in a generation opportunity to involve the private sector to tackle the intractable problems of poverty, illiteracy, hunger, lack of women empowerment, inequality in all its forms, unnecessary mortality, social unrest, etc. Our goals are ambitious - solutions to these problems must be provided for all human beings regardless of age, gender, race, ethnicity, religion, ability, etc. And that is the challenge - reaching that last person with modern energy, potable water, sanitation, education and access to Ethernet and transport exponentially increases the cost of reaching these goals. Until recently, it was considered unaffordable. However, with the unprecedented rapid advances in technology and the strong commitment from all sectors of society, including the private sector, innovators and innovative financing, I believe the SDGs by 2030 are achievable for all everywhere.

> "As the SDGs were developed in an open and participatory way, they have galvanized all sectors around the world, which is unprecedented in UN's history."

Investment needs to achieve SDGs are large. UNCTAD estimated that an additional $2.5 trillion per year is needed for infrastructure investments in power, water and sanitation, telecommunications, and transport in developing countries alone *(UNCTAD World Investment Report 2014. http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=937)*. Traditional official development assistance (ODA) of $180 billion is necessary but far from sufficient. ODA must be used to leverage additional investments from all sources, including the private actor. In addition, pensions and private savings from capital markets will also need to be realigned to support of the SDGs.

Changes completely unthinkable a few years back, are already happening. For instance, the Sustainable Stock Exchange Initiative (SSE) started in 2009, now has 65 Partner Exchanges including NYSE and NASDAQ and several exchanges in emerging and developing markets with 30,000 listed companies and combined valuation of $55 trillion. The SSE Initiative is a peer-to-peer learning platform for exploring how exchanges, in collaboration with policymakers, regulators, investors and companies can enhance corporate transparency on ESG *(environmental, social and corporate governance)* issues and encourage sustainable investment. 12 SSE Initiative partners have mandatory reporting on ESG and 38 have provided formal reporting guidance prepared by the World Federation of Exchanges in collaboration with SSE Initiative to their listed companies. Another 10 partners have committed to issue this guidance. The guidance includes 33 key material indicators. Once the majority of companies started reporting against these core and material indicators, investors and citizens will be able to benchmark companies and invest in and/or buy from best ranking companies. This benchmarking is impossible without publically available data on a core set of indicators as most investment analysts find the cost of buying this data *(often a few quarters old)* prohibitive.

Similarly, the UNEP Inquiry, started in 2014, has seen innovations in financial system design at national level. More and more national legislations and central banks include social and environmental impacts in their reporting and fiduciary duty. This innovation was unthinkable five years ago. This year's President of the UN General Assembly will be the third to put sustainable finance as one of his priorities. This continuity is unparalleled, and it aims to raise the awareness of sustainable investment and increase the financial literacy among UN delegates, supported by a group of 50 Ambassadors to the UN in New York co-chaired by Canada and Jamaica.

## Aligning Innovation with the SDGs

I am fascinated by the traction the SDGs have on every sector of our society, especially on entrepreneurs. Several governments and incubator and startup programs have already selected entrepreneurs worldwide dedicate to find out solutions to address social and or/environmental impacts while making profits.

The Unreasonable Group — a registered B Corp company — is one of these global initiatives designed to bring resourceful, creative and disruptive entrepreneurs together to learn and to break down barriers they are facing to unleash their potential to provide cutting edge solutions to the world most intractable problems. They do this by bringing them together for a two week incubation period with mentors and specialists in marketing, financing, networking, web design, branding etc. I was invited to be a mentor for the Unreasonable Goals.

The initiative to align with the SDGs was supported by the US State Department in 2017. Innovators providing the best scalable entrepreneurial solutions for each of the 16 SDGs *(the 17th is partnership and means of implementation)* were provided mentorship and financing, business, government relations, and global network expertise. The State department has invited other countries to support the program for the next 13 years left for the implementation of the SDGs.

In the afternoon, the 16 innovators could sign up for an hour of one on one with the mentors. I was initially afraid no one would sign up with me. But to my great surprise and delight, entrepreneurs had strong eagerness to learn how to engage with the UN. My timeslot was filled to capacity every day. I was deeply impressed by the experience and commitment of everyone involved encouraging me to write this article to share the information more broadly.

### *1. How to work with the UN and how the UN works?*

These entrepreneurs, like many other engaged businesses, want to know how they can better contribute to the SDGs by connecting with the UN and raise awareness among its 193 member States of the existing technologies that can help achieve the SDGs. I wish I could give them a "1-800 number" to call for the answer. However, this hotline does not exist.

*Box 1: Technology facilitation mechanism*

### Technology facilitation mechanism

Recognizing the role of Science, technology and innovation to achieve the SDGs, Agenda 2030 includes the launch of the Technology Facilitation Mechanism, which has three components:

1. An Inter-Agency Task Team on Science (IATT), technology, and Innovation for the SDGs
2. A Multi-stakeholder Forum on STI (STI Forum)
3. An online platform as a gateway for information on existing STI initiatives, mechanisms, and programs

Hopefully, the online platform being conceptualized by the Inter-Agency Task Team on Science *(Box 1)* will provide this information to all stakeholders. It should allow for entrepreneurs and corporations to raise challenges and propose solutions, while the STI Forum and the IATT act as a broker to match with countries' need.

In the first two Forums, innovators were invited to submit their innovation and if selected, invited to share information, experiences and best practices to addressing the SDGs. This process could be facilitated and scaled up by partnering with the various initiatives such as the Unreasonable Goals, 500 start-ups, MIT Solve Challenge, Global Ideagen Challenges, and others that are aligned with the SDGs. Countries could also help. For instance, the Canadian government organized a competition for Canadian innovators, which I helped introduce to representatives from various UN agencies that work on innovations (WIPO, UNIDO, ITU, UNESCO and UNCTAD).

It was like a "speed dating exercise" where innovators presented their solutions and representatives explained their work and introduce specific staff or department in the UN those innovators could contact to, and tools and opportunities innovators could take advantage of. If 20-30 countries committed to run global competitions of innovators and bring winners to the annual Science, Technology and Innovation Forum, we could have 20-30 innovations for each of the SDGs. They could develop pre-competitive agreements for turn-key solutions for several of the SDGs and then introduce them to national decision-makers and funders to explore potential partnerships. We could organize meetings by Goal or cluster of goals, based on interest expressed by countries in their 'National Voluntary Reviews" *(https://sustainabledevelopment.un.org/vnrs/)*. Multilateral, regional, and bilateral development agencies and banks, philanthropies, and private investors could also be invited to learn more about potential investment opportunities. For instance, Canada could complement or broaden the challenge to developing countries innovators.

The new UN Secretary-General Antonio Guterres has also included as part of his initial report on the UN to be fit-for-purpose "building longstanding relationships with the private sector that deliver on the 2030 Agenda". The Report also underlines that UN staff worldwide should be better equipped to work with the private sector, in a more transparent and accountable way. He also wants the Global Compact to improve its support to companies at country level.

"We could draw lessons from Britain and Singapore's experience with "sandbox" to have providers experience with FinTech products and services."

***2. Enhancing policies and legislations***

These innovators all face market access issues due archaic laws, procurement policies, or even constitution language. In hind-sight, it should not be surprising, if one is innovative enough and leap frog completely the current methods and infrastructure, they will be ahead of legislations. For instance, The Australian constitution guarantees a connection to the grid, limiting cheaper, more resilient and renewable sources of energy solutions. Similarly, local and other levels of government have procurement rules requiring three bidders, if solutions are truly innovative and disruptive, there will be only one provider.

This is where the UN and other regional and international organizations could be useful by helping governments assess and put in place "regulatory sandbox" for innovators to experiment and share and expedite learning. We could draw lessons from Britain and Singapore's experience with "sandbox" to have providers experience with FinTech products and services. The international community can help raise awareness of all levels of governments to design appropriate "sandbox" for eligible firms to test new solutions on a specified number of clients within a well-defined period appropriate for each innovation type. Innovation can be tested by not having to satisfy all existing statutory requirements immediately and learning can be spread quickly as by making mandatory for successful applicants to report to the authorities regularly. The appropriate "sandbox" can be refined over time and information shared through the Commission on Science and Technology for Development, one of the intergovernmental body of the UN Economic and Social Council, that assesses policies needed to ensure inclusive access to technologies in developing countries.

### *3. Alternative distribution channels*

Innovators also had in common the search for alternative distribution models. Again, we should not be surprised that these innovators are shown by the incumbent and need to find alternative value chains by disrupting the current model. While some multinationals have made commitment to the SDGs including through their supply chain, monitoring and evaluation tools to measure impacts are still in their infancy. UNCTAD, UNIDO and the World Bank could develop a work program aim at supporting innovators' search for disruptive distribution channels with supporting financing mechanisms.

### *4. Reaching out to developing markets*

Many of these innovators already are based or already operate in developing countries. However, all realized that to have the impact they have set out to achieve they need to learn how to "enter and further penetrate" these less known markets. For instance, a commitment was made as part of the Paris Agreement on climate change to help Africa leapfrog to low-carbon development through renewable energy systems. For innovators that can tackle the challenge, it represents a 620 million market of Africans without access to electricity and 1.3 billion worldwide. Similarly, there is a market of 2.7 billion people without access to clean, safe and affordable access to energy for cooking. The international community has a duty to support the rapid spread of appropriate technology to fulfill these needs.

> "We now have proven, effective, and affordable solutions for many of the most pressing development problems."

### *5. Partnerships and Knowledge transfer*

I am a firm believer that social, institutional and technological innovations to achieve the SDGs exist already. We now have proven, effective, and affordable solutions for many of the most pressing development problems – off-grid, renewable energy, potable water, community health clinics, solar powered irrigation pumps, off-grid food storage, refrigeration, and processing, etc. One challenge is to combine them in packages that bring us closer to turn-key solutions to several SDGs the way the concepts of circular economies and sustainable consumption and production calls for. A second challenge is to figure out how to get these innovative solutions into the hands of hundreds of millions of people in emerging markets who still do not have affordable access to necessities such as potable water, electricity, sanitation, food security, education, or basic health care. Unlike incumbent technologies that depended on one large scale power plant or water treatment plant financed by a ministry with support from the international community, new technologies enable service delivery via small scale, distributed solutions with several, more often than not, uncoordinated actors such as the technology provider, local innovator, community or household purchasing the service, often supported by NGOs and social enterprises, impact investors and foundations. We need business/financial models to make the technologies affordable by the end users including the poorest and most remote in the poorest nations. In addition to bring all of these actors into a workable partnership, we need specific business models and financial mechanisms to deploy proven, cost-effective development solutions to communities. Several models developed by NGOs, social enterprises, and foundations have been successful. We now need to learn how to adapt them to fit the specificity of thousands of communities around the world *(see section below)*.

Partnerships must include all types of innovation – social, institutional, business, financial and technological. It must also take into account in-country, pro-poor, bottom-up innovations providing adapted solutions to local realities. The tendency by financiers and authorities to prefer high technology solutions from the "north" ignoring specific local conditions and needs based on human and natural resources, as well as level of infrastructure development limits deployment at scale.

For instance, Africa will need to create 122 million jobs over the next decade; labor-intensive innovations would best answer local conditions. Likewise, distributed energy and water services systems will be more adapted to the remote rural populations in developing countries than those depending on public infrastructure for service delivery. This is best done by integrating local innovators and regulators into the design of solutions and model of deployment.

Many information and communication technology multinationals have already started providing knowledge transfer directly from their local employees to local population to ensure a skilled labor force. Some of these multinationals are in as many countries as the UN and are increasingly working with other multinationals in pre-competitive spaces along with NGOs, governments and/or communities or philanthropies to solve problems too big and intractable for them solve alone and could be potentially be partners.

We could also do more: update the curriculum of business schools to best prepare entrepreneurs and investors to work and invest in developing countries. Lack of consideration in standard business school teachings of the challenges associated with operating in developing regions, and the resulting need for innovative problem solving, tend to leave managers ill-prepared for impactful investment in low-income countries.

Indeed while the opportunities are increasingly found in developing markets — Foreign direct investment in the least developed countries is growing twice as fast as investment in developing countries as a whole — curriculum focus and prepare leaders for mature markets with the risk-return profiles associated with those. They tend to ignore opportunities outside these parameters. UNCTAD finds that only 13% of case studies in business school are from developing countries and only 0.4% from Least Developed Countries. *(UNCTAD 2015. Business School for Impact: Teaching Skills for Base of the Pyramid Businesses. http://unctad.org/en/PublicationsLibrary/diaemisc2015d4_en.pdf.)*

### *6. Innovative sustainable finance and investment*

Of course, the question of financing and investment, especially to meet developing countries needs is a common challenge face by innovators.

To respond to the above challenges, the last three Presidents of the General Assembly have put sustainable financing *(http://www.un.org/pga/71/2016/12/07/informal-briefing-on-sustainable-finance/)* at the top of their agenda. A Group of friends on sustainable financing with 50 Ambassadors has been created to support it and the World Bank, IMF, UNCTAD, UNDP, and WTO, major Institutional stakeholders to the Financing for Development Agenda *(http://www.un.org/esa/ffd/ffd-follow-up/inter-agency-task-force.html)* are partnering with other agencies, philanthropies and member States to fasten the learning in impact investment and aligning capital markets with the SDGs. While it took 10 years for investors and local and national authorities to feel comfortable with green bonds, the learning curve for impact/blended SDGs investment needs to be compressed to a few years if we want to achieve the SDGs by 2030. And, as some investment opportunities with strong potential for social or environmental impact have inherently high initial financial risk, foundations and development finance institutions (DFIs) have an important role to play to ensure investments meet risk and return profiles that can attract the private sector, especially in the initial phase.

This is especially true in countries where investments are most needed, such as least development countries, small Island Development States and other vulnerable economies but where FDI are the lowest. Special efforts and innovative financial mechanisms are needed to attract investments and transfer of technologies to these countries. UNCTAD estimates that the rate of growth in private investment in LDCs would have to double from its current 2% of global flows to achieve the SDGs.

Convergence *(https://convergence.finance/)* was created in January 2016 by Canada, the Citi and Ford Foundations, among others, with this goal in mind. They are experimenting and documenting multi-tranche instruments, including catalytic first-loss capital protection, loan guarantees and concessionary loans, and grants from various private and public actors to improve risk-return profiles of needed investments. Lesson learned and case studies are published at the end of each project to document why practitioners made specific design decisions and what they learned from the process. Often the issue is too contrived or big for a traditional investor to tackle alone, a tierce party is needed to bring relevant players together. They thus connect credible private, public, and philanthropic investors with one another, to co-invest in deals posted on the platform; ease the investment process for both new and experienced investors through a range of practical tools and resources on how to structure blended finance transactions and streamline the investment process. Export and import promotion agencies are also relied on to provide support. The experience from Convergence Sub Saharan Africa and Smallholder Agriculture (SORONA) Frontier market fund 2 (SFMF-2) is illustrative of early successes of these large-scale multi-tranche projects with OPIC offering hard capital through a senior loan on the top of the stack *(risk absorbing)*, the Canadian development agencies offering soft capital for the first loss concessionary grant, and private investors providing straight market rate investment.

Other initiatives include the work done by the Rockefeller Foundation, the World Bank and others all aim at speeding the leaning on Social Impact Investment.

Another emerging model is the "social-impact bond", in which "outcome funders", such as governments and aid agencies, pay back investors who have funded projects that meet specific goals which, although socially desirable and delivering national cost savings, do not yield direct profits. Israel, the US and Canada are acquiring experience with these bonds usually based on the advanced market commitment (AMC) principle. For instance, the Children's Investment Fund Foundation, a charity, has agreed to pay a return of 10% on a project designed to improve school attendance among Indian girls if enrolment, literacy and numeracy improve as agreed after three years. If the results exceed expectations, an additional premium of up to 15% is paid.

The World Investment Forum held biennially – the investment sister to the WEF – is the most extensive platform of global leaders, CEO, investors, sovereign wealth funds executives, parliamentarians, capital market executives, investment treaty negotiators, investment promotion agencies, and CSOs that facilitate partnerships, projects and policies that foster investments where it is most acutely needed *(http://worldinvestmentforum.unctad.org/#/ms-1/1)*.

Private investors are increasingly being invited to regional meetings held by the five UN Regional Commissions preparatory meetings for the High Level Political Forum.

## Conclusion: why business cares about the SDGs?

In simple term, they are practical and provide a framework and guideposts for multistakeholder partnerships and give a meaning to globalization. As importantly, people at the bottom of the income ladder in developing countries represent a $5 trillion market for food, housing, clothing, personal care, energy, transport, health and education. The Business and Sustainable Development Commission *(http://businesscommission.org/)*, sponsored by Unilever and coalescing the participation of international leaders from business, labor, financial institutions and civil society such as the CEOs of Unilever, Mars, Alibaba Group, Aviva, Ericsson, revealed that sustainable business models to meet the SDGs could open economic opportunities worth at least US$12 trillion and create up to 380 million jobs a year by 2030. The report finds the SDGs can catalyze innovations, partnerships, and investments that can turn poverty, inequality and lack of access to basic and financial services into new market opportunities. Achieving the SDGs by 2030 is providing moonshots for all!

***Chantal Line CARPENTIER***

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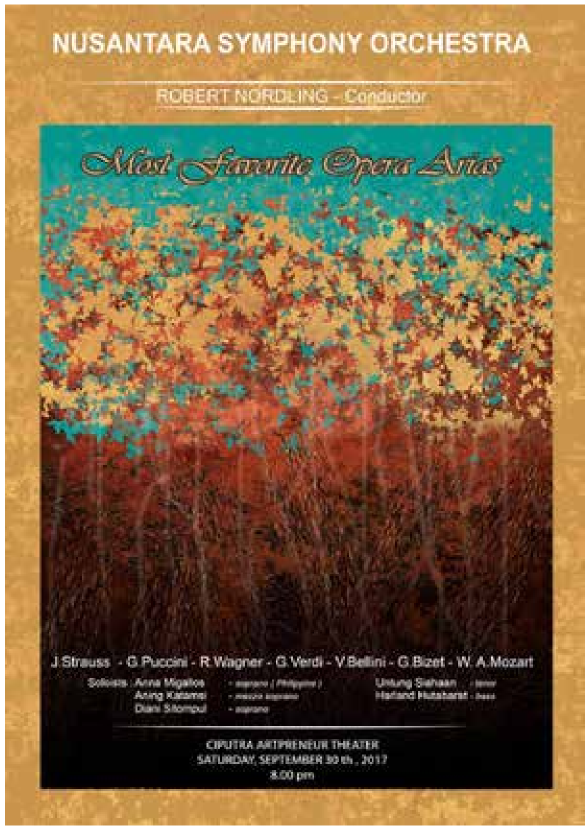
***Chantal Line Carpentier,*** *Canadian citizen, is the Chief of UNCTAD New York. Prior to 2014, she was actively involved in the successful negotiations of the Sustainable Development Goals for the UN Department of Economic and Social Affairs (DESA). During her tenure with DESA, she served as the Major Groups coordinator to enhance non-state actors' engagement with the UN. She facilitated the participation of more than 10,000 non-state actors – a record - in the UN Rio+20 Conference on Sustainable development. She was also the DESA focal point for sustainable consumption and production, food security and sustainable agriculture. Prior to her UN career, she served as Head of the Trade and Environment Program of the NAFTA Commission for Environmental Cooperation from 2000 to 2007, as policy analyst for the Wallace Institute for Alternative Agriculture from 1998-2000, and as post doc for IFPRI in the Brazilian Amazon from 1996-98. She made the Ideagen 2016 100 Individuals and Organization empowering women and girl, is a 2006 Yale World Fellow, a UNEP Who's Who's of Women and the Environment. She has consulted to UNDP, World Bank, OCDE, and USDA. Dr. Carpentier is a published scholar and a frequent public speaker. An economist by training, she holds a Ph.D. in Agricultural and Applied Economics from Virginia Tech and a Masters and B.Sc. in Agricultural Economics from McGill University. She competes in ultramarathon and ironmen and is second dan black belt.*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Ndaru Darsono *Tenor*
Harland Hutabarat *Bass*

Indonesian Youth Choir - Cordana
Nusantara Symphony Choir
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GKJ Jakarta Children Choir
HKBP Kramat Jati Children Choir
SAI Choir Sentul

CIFA CONVENTION OF INDEPENDENT FINANCIAL ADVISORS
A Non-Profit Swiss Foundation
A NON-GOVERNMENTAL ORGANIZATION IN GENERAL CONSULTATIVE STATUS WITH THE ECONOMIC AND SOCIAL COUNCIL OF THE UNITED NATIONS

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# CIFA – AAA PARTERNSHIP

## Report 2017 - 2018

The Convention CIFA – AAA is founded on UN Sustainable Development Goals (SDGs), with a particular emphasis on activities related to vulnerable/orphan girls' education, equipment of rural schools of AAA village network with Water wells, Blocks of toilets in schools/rural health centres, and trainings/mobilization on community preventive health. Moreover and beyond mere achievements, AAA constantly wonders how best to use this partnership to earn a reputation of a trusted community tool for a collective transformation?

The basic steps developed so far for transformation are:

**a)** Focus on AAA special strategy which is to eliminate AIDS through preventive health measures that lead to the strengthening of the Immune System;

**b)** Identify how this strategy aligns with the UN Sustainable Development Goals;

**c)** Determine how to measure impact and outcomes on real people and communities;

**d)** Engage beneficiaries to become actors and leaders and place themselves on the solution and not the victim side;

**e)** Keep learning from partners and beneficiaries of this process to refine a model that could be replicated elsewhere.

It is around these steps that our 2017 activities were organized including:

A. EVOLUTION OF BAYEMI HOLLANDE's ACADEMIC EDUCATION

B. COMMUNITY PREVENTIVE HEALTH IN AAA VILLAGES, including:

1. Bayemi's growing research interests in Public Health,
2. Bayemi's involvement as intern in AAA villages' health mobilization
3. AAA Launching of a Preventive Health Concept in rural schools.
4. Inauguration of a block of toilets in Mimbama public school that receives 155 children.

**ECOLE PUBLIQUE DE MIMBAMA (CVECA D'ABEM)**

L'enfance est le meilleur moment pour apprendre les comportements hygiéniques.

Les enfants sont, et les parents, et les enseignants de demain. Ce qu'ils apprennent et appliquent aujourd'hui aura un impact énorme sur la santé du futur.

Un grand Merci à **CIFA** qui encourage les efforts qui nous projettent vers un avenir débarrassé des **Maladies Evitables** et vers un Développement Durable.

*www.africanactiononaids.org - www.facebook.com/africanactiononaids*

# The CFPB Arbitration Rule is Pro (Honest) Businesses

**William K. Black**
**Professor of Economics and Law at the University of Missouri – Kansas City (UMKC)**

***Politico*** has just published a column with a title and analytics that drive white-collar criminologists nuts: ***"In a major setback for businesses, CFPB opens door to consumer class actions."*** Logically, the title should have read: ***"In an important step forward for consumers, investors, and honest bankers and lenders, CFPB begins to restore the rule of law to banking."***

The CFPB is the acronym for the Consumer Financial Protection Bureau. The problem that led to CFPB to issue its new rule has six parts.

**First**, it is often profitable for lenders to abuse and defraud borrowers.

**Second**, lenders are able to do this because financial understanding is highly asymmetric.

**Third**, even if the borrower eventually spots the fraud or abuse, it is rare that the typical borrower could profitably prove the fraud and recover enough funds in a lawsuit to *(net of legal expenses)* recover effectively, and could never recover enough to deter future misconduct.

**Fourth**, the only potential legal remedy for the typical victim to recover and deter is the class action suit.

**Fifth**, lenders routinely eliminate this potential remedy by requiring in their form contracts that the borrower give up any right to bring a class action suit against the lender. Indeed, they typically forbid the victims of their frauds and abuses to bring any civil suit. They permit only arbitrations in a rigged system that ensures that the typical borrower will rarely find it cost-effective to arbitrate and deterrence is impossible. The Supreme Court, to its shame, has allowed this abusive use of form contracts.

**Sixth**, the environment I have just described is highly criminogenic. It creates powerful perverse incentives not simply for individual bankers to defraud and abuse their customers, but for such frauds and abuses to become dominant. Elite bankers will gain a competitive advantage by causing the firms they control to abuse and defraud the borrowers. Economists and criminologists refer to this as a "Gresham's" dynamic. George Akerlof gave it this name in his famous 1970 article on a market for "lemons" that led to the award of the Nobel Prize in Economics in 2001. Akerlof explained that the dynamic is so perverse that hit not simply the individual customer who is a victim of the fraud, but also the honest CEO who cannot compete with the cheater. Akerlof further explained that this meant that all of us would suffer as customers in such an industry as it became corrupted.

> ***[D]ishonest dealings tend to drive honest dealings out of the market. The cost of dishonesty, therefore, lies not only in the amount by which the purchaser is cheated; the cost also must include the loss incurred from driving legitimate business out of existence.***

Economists and criminologists have a common sense definition of a Gresham's dynamic – bad ethics drives good ethics out of the markets unless the rule of law prevents it.

Kartik Athreya, an exceptionally conservative economist who is the Richmond Fed's research director, admitted that Akerlof had demonstrated that asymmetric information could create "spectacular pathologies" and that they were most severe in the lending context. *(Economists like Athreya focus almost exclusively on the hypothetical case in which the borrower has superior information compared to the lender, but that is the product of his ideological blinders).* As the recent financial crisis demonstrated, it is the CEOs that control our largest and most elite lenders that create and exploit those loans that seem to the unobservant to create an informational advantage for the borrower, i.e., "liar's" loans. It was overwhelmingly lenders and their agents that put the lies in "liar's" loans and appraisals as I have demonstrated in many articles.

The Supreme Court and the lending industry have destroyed the rule of law in lending for the typical borrower. The result, as economics and criminology predicts, has been an orgy of fraud and abuse of borrowers. This adds to the profit of firms led by dishonest and abusive CEOs and tends to drive honest competitors out of the business. The way to block the dynamic is to take the profit out of fraud and abuse by lenders by restoring the rule of law. The four strategies that are essential to defeat a Gresham's dynamic are **(1)** prosecutions of the elite fraudsters, **(2)** regulations banning the industry's odious form contracts requiring borrowers to give up their legal rights to bring class action suits, **(3)** adopting laws and rules that encourage and protect whistleblowers to come forward and disclose the lenders' frauds and abuses, **and (4)** a campaign by honest CEOs to denounce publicly their fraudulent competitors and embrace and require the highest standards of integrity in hiring senior officers and in rejecting compensation systems that create perverse incentives to cheat and abuse the customer. Steps three and four should be combined. The way for lenders to signal their adherence to the highest moral standards is to hire as leaders whistleblowers who have been through the crucible and demonstrated their exceptional integrity.

The CFPB cannot prosecute. The Trump administration has made clear that it intends to withdraw resources from the already inadequate FBI agents and prosecutors dealing with elite

"The Supreme Court and the lending industry have destroyed the rule of law in lending for the typical borrower."

white=collar criminals. This makes the CFPB rule restoring the *civil* rule of law to borrowers all the more essential. The dishonest lenders are baying for the Republican-controlled Congress to block the CFPB's restoration of your civil law rights. This gives each of us two invaluable opportunities. **First**, we can push our representatives to refuse to destroy our civil law rights. **Second**, we have a priceless opportunity to observe how many *honest* bank and credit card CEOs come forward to defend the CFPB rule to begin restoring the rule of law to lenders and breaking the Gresham's dynamic that favors the most dishonest CEOs. I am skeptical that we will observe many honest CEOs come forward, but I would be delighted to praise in print any who do so. I make this invitation to all CEOs of lenders; please contact me with your public statement of support for the CFPB rule. I will write to praise your membership in our legion of honor. It will take courage to take on your industry trade associations, which are uniformly opposed to restoring the rule of law to finance.

***William K. Black***

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*__WILLIAM K. BLACK__ teaches Economics and Law at the University of Missouri–Kansas City (UMKC).*

*He is a white-collar criminologist. He directed the Institute for Fraud Prevention. His regulatory career is profiled in Professor Riccucci's book Unsung Heroes. George Akerlof called his book, The Best Way to Rob a Bank is to Own One (University of Texas Press 2005, 2014), "a classic."*

*Paul Volcker wrote: One of those lessons really sticks out: one brave man with a conscience could stand up for us all.*

*Black helped the World Bank develop anti-corruption initiatives and testified to Congress five times about the financial crisis.*

*He is also the "Distinguished Scholar for Financial Regulation" at the University of Minnesota's Law School and a Professor at IAEN in Quito, Ecuador.*

# IDD and MiFID II
# Beloved sisters or competing friends?

**Vania Franceschelli**
**Member of FECIF Board of Directors**
**Foreign Affairs, ANASF/Italy**

Time has come. On 19 March, the amendment postponing the application date of directive 2016/97 *(Insurance Distribution Directive - IDD)* has been published in the Official Journal of the European Union. By 1 July, Member States shall thus adopt and publish all the laws, regulations and administrative provisions necessary to comply with the directive. National measures shall apply from 1 October at the latest.

Given the very short period of time left, national institutions and stakeholders are working on the draft measures for the transposition of the IDD. This is also the case in Italy: a draft decree amending the Insurance Code of 2005 has recently been presented to Parliament.

One of the main issues at stake is the achievement of a level playing field between the insurance and financial sectors. This is particularly true for insurance-based investment products (IBIPs), which are often made available to customers as potential alternatives or substitutes to financial instruments regulated under MiFID II. With regard to IBIPs, the need to ensure consistent investor protection and avoid the risk of regulatory arbitrage has been achieved by providing for specific IDD requirements, in addition to the conduct of business standards defined for all insurance products. Such specific MiFID-inspired standards encompass the provision of appropriate information to customers *(including disclosure of all costs and related charges)*, rules on conflicts of interest and, when advice is provided, the assessment of suitability.

When advising on IBIPs, insurance distributors will thus be required to obtain all the necessary information regarding the customer so as to recommend suitable investment solutions: knowledge and experience in the relevant investment field, financial situation *(including the ability to bear losses)* and investment objectives *(including risk tolerance)*.

From this point of view, IDD and MiFID II may appear as two beloved sisters, getting along quite well. But there's no rose without a thorn and the playing field is not so thoroughly levelled, because the rules on inducements are not exactly aligned between the two directives. In MiFID II, the general rule is that inducements are admitted if they enhance the quality of the service provided to the client. Inducements are regulated differently under the IDD, as they shall not have a detrimental impact on the quality of the relevant service provided to the customer. To put it more simply, while MiFID II adopts a positive stance with regard to inducements, the IDD brings everything back to a neutral one.

***Les jeux sont faits, rien ne va plus?*** Not exactly.

The IDD is aimed at minimum harmonization. Therefore, Member States may opt for more stringent – let's say, MiFID-aligned – provisions to enhance customer protection. This seems to be the case of the new regulatory framework for insurance distribution in Italy. The European delegation law of 2016, setting the principles and criteria for the transposition of the IDD, explicitly requires to align, as much as possible, the new rules on insurance distribution with the MiFID II framework. This requirement may thus represent the key to consistent regulatory harmonization.

Will the Italian legislator achieve a consistent set of rules between insurance products and financial instruments, especially with regard to IBIPs?

Will other Member States follow the Italian example?

The answers to these questions will be discovered in the course of this year.

In the meantime, Anasf – the Italian association of financial advisers – and FECIF will follow and contribute to every relevant regulatory development.

# How much do we pay for over-regulation?

Over-regulation of financial services in the European Union is a well-recognised fact, even among the bureaucracy in Brussels.

The key feature of all those MiFIDs, IDDs or GDPRs, however, is not its devastating effect on the *(small and medium-sized)* businesses themselves, but its detrimental cost to the customer.

It is here that hope resides. Hope that the savage regulatory movement will be stopped and reversed; by the man and woman in the street, should the whole circus get too costly for them.

So, how much does the regulation really cost and where is the breaking point?

First, there are explicit costs. The direct amount of money your asset manager, for example, has to pay for new compliance officers, lawyers´ invoices and paperwork. These costs will often be intentionally underestimated by the regulators. Such as it was with the Czech transposition of the IDD directive, which claimed that "additional costs are fully appropriate when compared to industry earnings". Mind you, this assertion is related to law with about ninety new paragraphs (!!!). But you, dear customer, should not be fooled by such commentaries – because in the end, YOU will pay all those costs, which will translate into your fees and charges.

Then, there are implicit costs. Less visible, intangible "payments" related to market distortion caused by *(over)* regulation. Maybe the most important example: as the industry barriers and fixed costs begin to rise, because of new exams, codes of conduct etc., small and medium enterprises will be slowly pushed out of the market. This is no 'sci-fi', as the post MiFID II apocalypse on the German market already shows.

What will the remaining market players do, after their smaller counterparts are gone? Yes, they will increase prices and margins. Again, this means higher fees and money lost. Your money.

Both implicit and explicit costs are often not reflected by the regulators in their cost-benefit assessments. This is done intentionally, as correct evaluation would totally prevent many colossal regulatory changes from happening. Nevertheless you, as the customer in the centre of things, should always account for the price of the protection that you are forced to enjoy. You might hear the argument that the fees are not rising, instead they are pushed down by disruption and technology changes. But, without the regulation costs, they would decrease even faster. How can we determine that? Just create a price differential between a fully regulated service, such as a regular taxi, and its non-regulated disruptive counterpart – let us say Uber. In my home city of Prague, where the border between regulated and not regulated at all is almost perfect, Uber prices stand at about 35% - 50% of the regulated taxi services. Yes, those services offering full regulatory protection will be happily avoided by masses of people migrating to Uber.

**Jiří Šindelář**
**Deputy Chairman FECIF**

Of course, we can argue that asset management or life insurance is not like taxi services. Sure thing, but this example gives us an idea of what the "higher good" enforced on everybody by our regulators is worth. Coming back to the hope, mentioned earlier. That, in my opinion, resides in education of the general public about the costs imposed on them not by business itself, but by the regulatory "solutions". People are sensitive to price even with structured products like funds, which the boom of ETFs shows. If we are able to explain that their money is wasted on inefficient paperwork and red tape, the change of course might be achieved. Is this doable? My colleagues at FECIF and I believe so.

Hence, the prime task for our advisory community is at hand.


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# Une nouvelle voie dans la relation épargnant/conseiller

Ces deux dernières années ont été riches et intéressantes dans la création de nouveaux concepts de la relation entre les épargnants et les conseillers dans le domaine du conseil financier et de la gestion de patrimoine.

Des sites internet se sont développés en axant la relation client dans le sens allant du consommateur vers le professionnel *(le C to B)* et non la recherche traditionnelle de nouveaux clients en partant des actions marketing et commerciales des professionnels vers les clients potentiels.

La philosophie commune qui a inspiré la création et le développement de ces sites a été de privilégier la demande client et non de mettre en avant l'offre proposée par les professionnels.

Nous trouvons deux stratégies différentes de développement:

**Stratégie 1**: services d'allocation d'actif. Le consommateur émet un appel d'offre définissant une somme à placer et quelques précisions quant aux attentes de l'allocation d'actifs et sollicite une communauté professionnelle qualifiée *(selon les critères du site)* afin de lui faire une offre respectant ses critères de choix d'investissement *(risque/rendement/liquidités)* et dans le respect d'une éthique et des intérêts de l'épargnant.

**Stratégie 2**: services de conseils rémunérés aux honoraires. Le consommateur exprime un problème patrimonial *(préparation de sa succession, montage SCI IR ou IS, pré-liquidation retraite, optimisation fiscale, choix d'un statut TS ou TNS, rédaction d'un appel d'offre placement…)* et sollicite la communauté professionnelle qualifiée *(selon les critères du site)* pour trouver le bon interlocuteur *(rémunéré en honoraires)* qui puisse l'assister indépendamment de toute offre de placements *(immobiliers, financiers ou assurance vie)*.

Les points communs entre ces deux stratégies sont nombreux :

- Accès personnalisé et séparé entre accès épargnant et accès professionnels,
- Accès à des mini-formations *(MOOC etc…)*,
- Des messages réguliers d'information sur les nouveaux appels d'offre déposés par les épargnants,
- Les épargnants sont qualifiés: ils s'enregistrent sur le site et divers critères sont vérifiés *(par exemple la résistance aux risques, l'origine des fonds, validation des documents par des professionnels assermentés/agréés …)*. Cette qualification peut dans certains cas conduire à l'émission d'un passeport d'épargnant *(via un "robot" développé spécifiquement par les responsables du site)* qui apporte, au professionnel désirant répondre, un maximum d'informations afin de soumissionner en toute connaissance de cause, soit en émettant sa lettre de mission soit en rédigeant un devis. Le professionnel peut accéder éventuellement à la vision d'autres professionnels quant à la fiabilité de la requête de l'épargnant *(scoring de l'épargnant)*,
- Les professionnels ayant accès aux appels d'offres et sollicitations des consommateurs, sont eux aussi qualifiés et font l'objet de contrôles réguliers; cela peut inclure l'exigence de démontrer la possession des cartes professionnelles correspondant aux classes de service où ils souhaitent se faire référencer *(ceci peut prendre la forme de CV, diplômes, certifications professionnelles…)*, l'absence de condamnation, l'existence d'une assurance professionnelle à jour, l'obligation d'un certain niveau de formation continue annuelle *(entretien du savoir et du savoir-faire)*… En plus du contrôle généralement annuel, l'avis des épargnants ayant eu recours aux services du professionnel peut pris en compte avec une notation *(scoring du professionnel)*,
- Une présentation des professionnels qualifiés sous forme de script et/ou sous forme de clip vidéo,
- Des exemples de missions, des conseils pratiques…

**Patrick Dufour, PhD**
**MBA, CFP®, Iso 22222**
**Membre du comité exécutif CIFA**
**Président ASP Consulting**
**Fondateur et associé du Club Corporate Finance**

- Business model reposant sur des abonnements, des activités annexes d'animation de réunions d'informations sponsorisées… Moins généralement, le financement peut être publicitaire ou fondé sur un pourcentage des CA générés par la mise en relation C to B.

Cette nouvelle approche implique un certain nombre de contraintes. Pour qualifier les professionnels, la coopération d'organisations professionnelles neutres est hautement recommandée *(type organisations CIF en France, organisations CFP et/ou ISO 22222 ou syndicats professionnels dans le monde…)*. La reconnaissance des organisations publiques de contrôle des activités sera un plus non négligeable également. Des codes éthiques professionnels doivent être mis à jour pour correspondre à cette nouvelle attente du marché. De même, le rendu des professionnels *(présentation des offres, des rapports…)* doit faire l'objet d'un effort certain pour la parfaite compréhension des contenus proposés voire d'une standardisation de celle-ci. Les critères de qualité doivent être: clarté de la proposition ou des conseils, cohérence avec la situation et la demande de l'épargnant, neutralité de l'offre.

Du côté des épargnants, les exigences sont également cernées. Les sites doivent avant tout pouvoir déterminer des degrés de connaissance des mécanismes mis en œuvre, s'assurer de la compréhension des termes utilisés. Il nous semble indispensable d'associer ce type d'approche avec une assistance pédagogique permettant d'une part que la demande soit le mieux ciblée possible et, d'autre part, que la réponse soit comprise.

Un site comme Planet of Finance va quotidiennement présenter des demandes d'allocations d'actifs aux professionnels d'un pays *(Planet of Finance est à ce jour présent sur 68 pays)*. Un site comme Filib en France permet aux épargnants de poser des problèmes nécessitant du conseil-expert avec un choix de plusieurs professionnels dans la région concernée. Chaque professionnel fait l'objet d'un clip lui permettant de se présenter avec un résumé de ses compétences et de ses points forts. Avant toute mise en relation, la présélection permet de réduire les pertes de temps et les erreurs de ciblage.

Que peut attendre l'épargnant de ce type d'approche?

- Ne pas partir à la recherche du professionnel adapté au "doigt levé", sur des *a priori*, de fausses croyances ou sur des recommandations amicales, familiales ou sur des informations non contrôlées sur des medias *(presse, internet…)*. Ce mode de recherche peut conduire à un ciblage n'envoyant pas toujours vers la bonne qualification *(un expert comptable n'est peut être pas la personne la plus à même de renseigner sur la retraite, le notaire n'est pas le conseiller idéal sur les marchés boursiers, tout avocat n'a peut être pas toutes les ressources quant au montage de surholding… )*,
- Il a en face de lui un professionnel déjà trié quant à ses compétences, son expérience, son domaine d'intervention et sa conformité aux règles d'exercice de la profession et à une certaine éthique. Il peut avoir des avis d'autres usagers, voir un scoring,
- Il a un premier contact physique avec le conseiller *(clip vidéo)* ou un exposé objectif publié des domaines de compétences,
- Il a une garantie de services, de qualité de restitution *(claire, pédagogique, la plus neutre possible quant aux intérêts financiers du professionnel)*,
- Il maîtrise son engagement financier ou les limites de responsabilité de son interlocuteur,
- Il a une approche plus neutre que celle qu'il est généralement sensé recevoir de la part de la moyenne des professionnels.

Que peut attendre le professionnel de ces nouveaux média?

- Moins d'effort commercial, donc plus de temps à consacrer aux clients, à sa formation…
- Un client beaucoup mieux défini et à motivation claire, sur lequel il peut avoir l'avis d'autres professionnels, voir un scoring.
- Pas de mauvaise surprise quant à se faire payer des honoraires par exemple.
- La concurrence est plus "loyale" s'il est en compétition avec d'autres professionnels qualifiés par le site.
- Le combat est à armes égales, pas de promesses de taux ou autres qui sont illégales ou pouvant semer un doute dans l'esprit du client.

En conclusion, nous assistons à l'émergence d'une véritable innovation dans la relation. Celle-ci crée une nouvelle relation et confiance potentielle avec les professionnels. La complexité croissante des législation, des produits… une information plus omniprésente *(attention à la qualité!)* conduisent à un rapport différent avec les réseaux de distribution, une exigence plus forte quant au compétences, donc à une spécialisation accrue des conseillers. Ces sites permettent d'ouvrir la voie à une sélection plus réfléchie sur ce domaine. Nous attirons tout de même l'attention sur l'apparente transparence et objectivité *(les sites doivent asseoir leur crédibilité)* et le risque de perturber l'épargnant devant un excès d'informations *(l'épargnant va avoir une sollicitation additionnelle sur la toile, laquelle détient la Vérité)*.

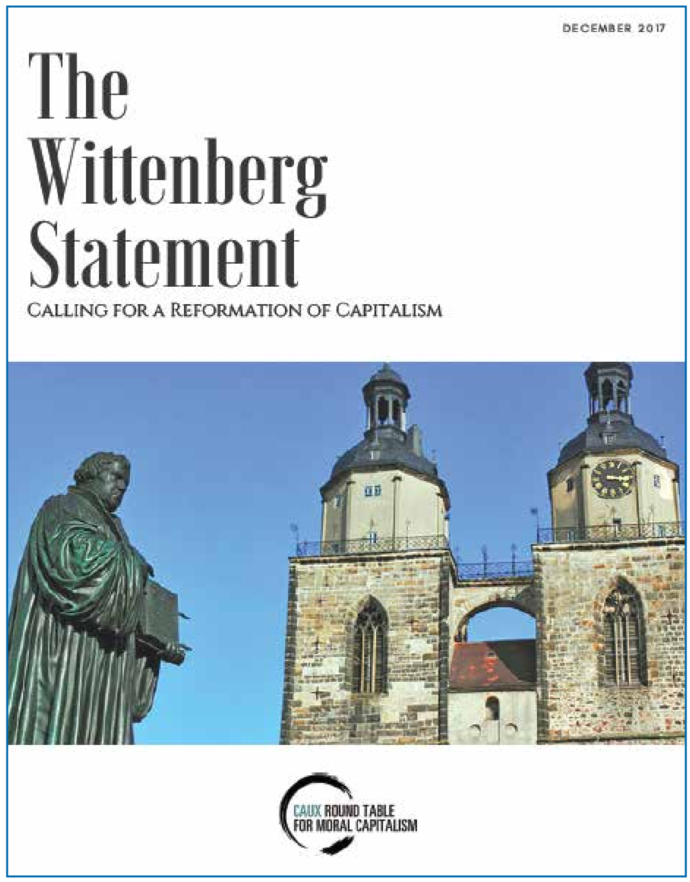
**_Patrick Dufour, PhD_**
*Membre du comité exécutif CIFA*

# A Call for a Reformation of Capitalism

*The community stagnates without the impulse of the individual.*

*The impulse dies away without the sympathy of the community.*

*William James*




Jointly, the Caux Round Table for Moral Capitalism and the Wittenberg Center for Global Ethics held a conference on the occasion of the 500th anniversary of Martin Luther posting his 95 Theses.

Reflecting on this momentous event, we recognized the present necessity to reform free market capitalism. This reformation needs to focus on individual responsibility, respect for individuals and institutions and personal vocations.

## Summary of Statement

Our global economy needs reformation.

The way our civilization produces energy needs reform. Ignoring conservation of our natural order must end. The concentration of wealth needs reform. The Trust Gap between elites and the common people, between rulers and the ruled, between the rich and those who need access to wealth, must be closed. The continued tendency of a now-wealthy and educated world towards intolerance and war needs correction.

The reformation of our global civilization must, in addition, address abuses of power, in both markets and governments. It must counteract the dystopian and narcissistic disruptions of digitalization – mindlessness, short-termism, other-directed "bubbles" of conformity in our choice of values and beliefs and the concentration of Big Data in a few hands. This essential reformation also must find and secure value in human talent to complement the coming achievements of artificial intelligence.

Luther proposed new ways of thinking about individual responsibility and an individual's relationship to power which, in time, facilitated the rise of modern science, free market capitalism and constitutional democracy; truly new models of civilization rewarding rising expectations of progress, again and again.

Luther proposed two roads to living rightly: individual faith in God and personal engagement with the teachings of scripture. He further believed, as a Christian, that all persons could serve God in their various vocations from high to low. He claimed that all believers could serve as ministers of higher purpose in this world. Luther, thus, focused responsibility for the

world on individuals and he ennobled their occupations as necessary to the accomplishment of God's purposes.

No matter what the structural power of systems and institutions, the proximate cause of change is individual conviction, courage and leadership. Individual leaders use vision and mission to set in motion the acts which we later write up as history.

The Caux Round Table for Moral Capitalism and the Wittenberg Center for Global Ethics appreciate our individual claims to freedom but question whether freedom without responsibility can ever lead to constructive change.

Luther insisted on radical freedom of individual belief but only within a faithful willingness to serve God and love one's neighbor. Luther asked the hard question of what is our freedom for?

Today, we still should ask the same difficult question. An individualism that asks only, "What's in it for me?" cannot address the dangers before us. An unhealthy atomization of humanity cannot bring us closer to happiness.

## The Wittenberg Statement

In our world today, individuals believe themselves to be uncared for and disempowered, while community elites are aloof and unsympathetic.

In 1517, Martin Luther challenged the propriety of selling false hopes for salvation to eager customers - setting in motion the Reformation.

Today, our global economy nonetheless finances and sells – also to eager customers – goods and services which lead to inequalities of income and wealth and goods and services which put at serious hazard the long-term sustainability of our inhabited world.

Luther proposed new ways of thinking about individual responsibility and an individual's relationship to power which, in time, facilitated the rise of modern science, free market capitalism and constitutional democracy; truly new models of civilization rewarding rising expectations of progress, again and again.

Since Luther's Reformation, powerfully successful institutions have accumulated many forms of capital to enable our modern world to produce this year US$146 trillion in annual wealth, as measured by purchasing power parity.

Today, we need to think anew about how power is used and for what ends and about every individual's responsibility to reform the dynamics of modern civilization. Much as Luther sought to turn the Catholic Church away from autocratic practices, we recognize that there is malfeasance and inequity in the current deification of the market and, specifically, financial wealth. Starting from a strong belief in the efficacy and power of free markets and constitutional democracy, the Caux Round Table for Moral Capitalism calls for a Reformation of Capitalism.

But first, we note that, coincidently, one hundred years ago on November 7th, 1917, another attempt was made at reformation of an old order. In that case, Lenin's Bolshevik revolution sought to change not individuals but systems. It turned out to have horrifically tragic consequences.

Luther proposed two roads to living rightly: individual faith in God and his son, Jesus Christ, and personal engagement with the teachings of scripture. He further believed, as a Christian, that all persons could serve God in their various vocations from high to low. He claimed that all believers could serve as ministers of higher purpose in this world. Luther, thus, focused responsibility for the world on individuals and he ennobled their occupations as necessary to the accomplishment of God's purposes. In this fashion, he found merit in worldly undertakings, such as the potentially more corruptible undertakings of technological innovation and industry, finance and commerce.

Today, we can renew and expand our appreciation for vocation by turning to contemporary resources as the U.N.'s Sustainable Development Goals, Pope Francis's encyclical, Laudato Si, and the Ethical Compass just proposed by the Wittenberg Center for Global Ethics. It is time, once again, for persons to become stewards of human integrity and agents of sustainable production and consumption.

We find it obvious that a new reformation of our systems and institutions is needed. We face three dangers flowing from the successes of modern capitalism: our reckless subjugation of nature has negative consequences; our creation of great wealth has not provided social justice for all; while the rise of computers and digitalization disrupts our ways of living and thinking and stimulates new forms of psycho-social alienation.

The way our civilization produces energy needs reform. Ignoring conservation of our natural order must end. The concentration of wealth needs reform. The Trust Gap between elites and the common people, between rulers and the ruled, between the rich and those who need access to wealth, must be closed. The continued tendency of a now-wealthy and educated world towards intolerance and war needs correction.

The reformation of our global civilization must, in addition, address abuses of power, in both markets and governments. It must counteract the dystopian and narcissistic disruptions of digitalization – mindlessness, short-termism, other-directed "bubbles" of conformity in our choice of values and beliefs and the concentration of Big Data in a few hands. This essential reformation also must find and secure value in human talent to complement the coming achievements of artificial intelligence.

No matter what the structural power of systems and institutions, the proximate cause of change is individual conviction, courage and leadership. Individual leaders use vision and mission to set in motion the acts which we later write up as history.

The Caux Round Table for Moral Capitalism appreciates individual claims to freedom but questions whether freedom without responsibility can ever lead to constructive change.

Luther insisted on radical freedom of individual belief but only within a faithful willingness to serve God and love one's neighbor. Luther also cloaked his individualism in personal responsibility for one's destiny, inside a moral dimension based on faith in the almighty and on learning from scripture.

Luther asked the hard question of what is our freedom for?

Today, we still should ask the same difficult question. An individualism that asks only, "What's in it for me?" cannot address the dangers before us.

Somehow, the freedom to be "me" must be reconciled with the reality of "us" through respect for others. Shared agreement on what constitutes the common good is needed. Today, we also know that freedom of belief must take into consideration historical realities and the dignity of others.

Individuals need, first of all, to utilize their personal freedom to discern, as Luther insisted they do, their personal vocations which respond to 'deeper, ethical callings.' It is these vocations, rather than mere job descriptions, that are needed to promote ultimate human achievement.

A renewed appreciation of vocations - both private and public – will meet the aspirations of many Millennials for work with purpose. And putting personal vocation as a central good provided by our global civilization will appropriately concentrate our attention on jobs and employment opportunities.

While such reflection on vocation concerns all individuals, there are some individuals, however – those who hold positions of great power – who must assume greater stewardship responsibilities as part of their personal vocation.

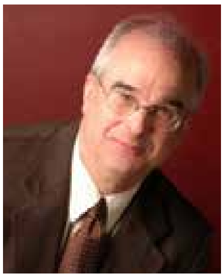
Personal freedom alone guarantees nothing. There will be no reformation of our institutions and our structures unless we use our moral sense, seek to live honorably and find a vocation for our talents.

Today, technology provided by private markets has pushed our individualism more and more towards atomized isolation and harmful insularity – draining away the social strength of the engaged individual. Given this, the question becomes: How today can we meaningfully and comprehensively empower a reformed individualism that responds to a relevant moral almighty in which to place our faith and which has suitable scripture from which to learn?

The reality of the Sovereign good, standing over and above ourselves as mere individuals, is something Luther most powerfully affirmed. Such reality was a vital part of his understanding of God which can help us today as a corrective, one that our modern societies need to recover, if we are to reform the excesses of atomized individualism. This perspective will enable us better to understand that authentic vision of ourselves and of human flourishing that alone can ground the proper discernment of our true vocation.

Suitable standards constrain the use of power. Suitable self-reflection opens doors to finding such standards. Seek and ye shall find.

*[The Wittenberg Center for Global Ethics was founded, with support from Andrew Young, to search for an economic reformation. The Caux Round Table for Moral Capitalism has worked for over 30 years advocating for responsible, respectful capitalism authoring the influential first set of ethical principles for global business, the "Caux Round Table Principles for Responsible Business"]*



***Stephen B. Young***
*Global Executive Director*
***Caux Round Table***

***STEPHEN B. YOUNG*** *the Global Executive Director of the Caux Round Table. Young has published Moral Capitalism and The Road to Moral Capitalism, two well-received books written as a guide to use of the Caux Round Table ethical and socially responsible Principles for Business. In her 2008 book, The Difference Makers, Prof. Sandra Waddock listed Young among the 23 persons who created the corporate social responsibility movement.*

*Young was educated at Harvard College and Harvard Law School. He served as an Assistant Dean at the Harvard Law School and as the third dean of the Hamline University School of Law. He has taught at the University of Minnesota and at the SASIN Graduate School of Management in Bangkok and spoken at many workshops and conferences on corporate social responsibility and business ethics.*

*Young has also taught at the University of Minnesota Law School, Carlson School of Business, the College of Liberal Arts, and Minnesota State University – Mankato. He has written numerous opinion articles for the Pioneer Press, the Minnesota Journal on Law and Politics, the Saint Paul Legal Ledger and has been published in the Wall Street Journal, the New York Times, and the Washington Post.*

# ENDORSEMENTS

**Endorsed by:**

The Wittenberg Center for Global Ethics

**Individual Endorsements:**

*"The Caux Round Table for Moral Capitalism and the Wittenberg Center for Global Ethics are to be congratulated on their initiative which deserves the support of the global community concerned with ethical issues in business as a whole."* – **Tunku Abdul Aziz**, Co-Chairman, Caux Round Table for Moral Capitalism

*"Excellence in business follows from commitment to customers and employees especially. The core of commitment follows from our sense of meaning and purpose in our work. The Wittenberg Statement reminds us of that truth so important to Martin Luther's vision of vocation."* – **Brad Anderson**, Co-Chairman, Caux Round Table for Moral Capitalism

*"The current face of capitalism is increasingly being questioned, which is why the Wittenberg Statement from the Caux Round Table for Moral Capitalism is so important. The Statement calls for a reform of free market capitalism to prosperity and social justice for all can become a reality, and I wholeheartedly endorse it."* – **Noel J. Purcell Ph.D.**, Chairman Emeritus, Caux Round Table for Moral Capitalism

*"The Reformation of Capitalism is necessary for the world of today and tomorrow. Therefore, I wholeheartedly endorse the Wittenberg Statement from the Caux Round Table for Moral Capitalism. Interfaith dialogue and worldview on all aspects of life and community are very important conditions for responsible, inclusive capitalism. The work of the Caux Round Table and the Wittenberg Center for Global Ethics regarding moral capitalism deserve support."* – **Jan Peter Balkenende Ph.D.**, former Prime Minister, The Netherlands

*"Strong agreement with your statement."* – **Antony Burgmans**, Chairman, Akzo Nobel; former CEO, Unilever

*"I endorse this declaration with my full support and grateful heart."* – **John Dalla Costa**, Founding Director, Centre for Ethical Orientation

**Morihisa Kaneko**, former Associate Director, Matsushita Electric Industrial Company; Co-author, Caux Round Table for Moral Capitalism's 1994 Principles for Business

**Jean-Pierre Diserens**, Secretary General, Convention of Independent Financial Advisors

**Herman Wijffels**, former CEO, Rabobank; former Chairman, Social and Economic Council of the Netherlands; former Executive Director, World Bank

**Paul Polman**, CEO, Unilever

**Reverend Canon Alistair Macdonald-Radcliff**, former Senior Advisor, World Economic Forum and C100

**William A. Graham**, Murray A. Albertson Professor of Middle Eastern Studies, Harvard University; former Dean, Harvard Divinity School

**Venerable Phra Dr. Anil Sakya**, former Assistant Secretary, Supreme Patriarch of Thailand

**Bertrand Collomb**, Director, LaFargeHolcim; Member, Académie des Sciences Morales et Politiques

# Our World is in Trouble: What Can We Do?

## Seeking New Vocational Inspiration in the Tradition of Martin Luther

Caux Round Table for Moral Capitalism
2017 Global Dialogue
November 5th – 8th
Wittenberg, Germany

Camus once noted that, "A man without ethics is a wild beast loosed upon this world."

The same could be said for capitalism and, in fact, the Caux Round Table for Moral Capitalism (CRT) has been saying this very thing for nearly 30 years.

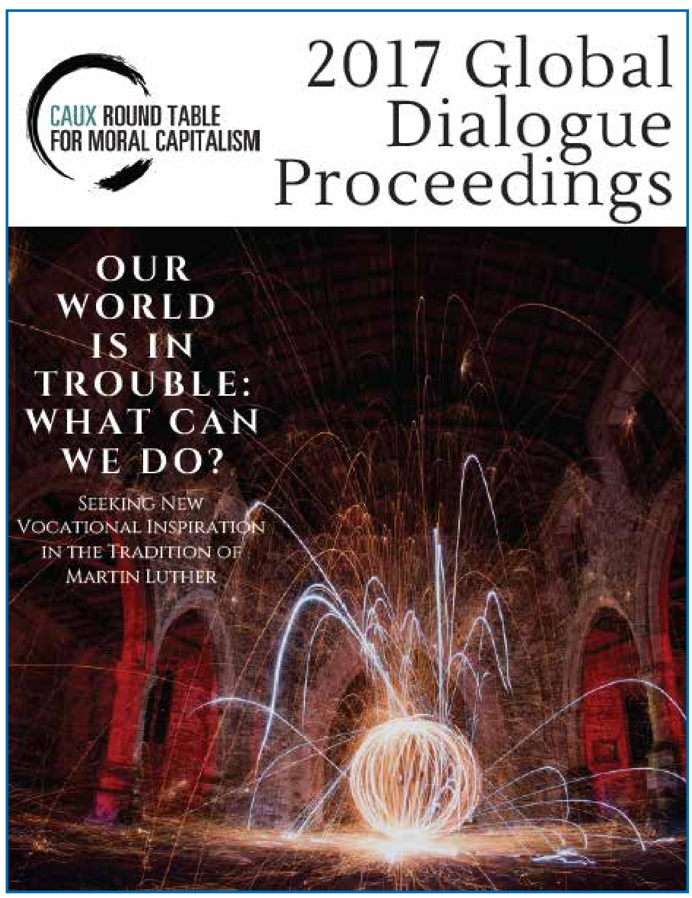
Over the course of 4 days in November, 2017, the CRT and the Wittenberg Center for Global Ethics came together, with special sponsorship provided by Unilever, to host the 2017 Global Dialogue.

The event was entitled, "Our World is in Trouble. What Can We Do? Seeking New Vocational Inspiration in the Tradtition of Martin Luther."

We were honored to be hosted in the city of Wittenberg on the occasion of the 500th anniversary of Martin Luther posting his 95 Theses - in essence, marking the start of the Reformation.

It is in this spirit that along with these proceedings, the CRT will be incorporating attendee inputs into a new document calling for a new Reformation of Capitalism. *[read on pages 39 to 42]*

The discussion over the course of the 4 days was lively and offered many insights on a variety of topics. As the title of the event might indicate, there was much concern for the state of our world. These concerns covered a variety of areas ranging from corporate malfeasance, individual ethical behavior, corruption of governance systems and the sustainability of our global environment.



The morning session of the first full day was highlighted with presentations from Jeffrey Sachs, Irene Plank and Klaus Leisinger.

*(As the Dialogue began with individual presentations, those discussions and salient points are given appropriate attribution. However, as the Dialogue moved to our more traditional round table-style discussion, typical Chatham House rules have been applied to these proceedings.)*

Jeff Sachs, Director of the Earth Institute at Columbia University, beseeched those in attendance to realize that we are the inheritors and creators of technology that is so remarkable we could end all hunger on the planet but we could also end all human life. Sachs urged the audience to take climate change and sustainable development seriously and warned against the dangers of playing politics with the planet. While some in the audience might have differing opinions on the cause and severity of climate change, no one could deny the passion with which Sachs described the potential dangers of unchecked capitalism.

Irene Plank of the German Federal Foreign Office described the process of creating the National Action Plan (NAP) required by the United Nation's Guiding Principles on Business and Human Rights. The NAP is intended to clearly explain to businesses what their duties are if they want to respect human rights. This is part of a wider effort to have businesses identify the impacts of their own business practices.

Klaus Leisinger, Founder and President of the Global Values Alliance and former Chairman of the Board of the Novartis Foundation, noted the double-edged nature of modern capitalism. He noted that there is much that needs to be done in the world and that business can play a huge role in the process. However, he also believes there has been much talk about what business could – and perhaps should – do and, in many cases, very little action.

> "The CRT understands that our actions are energized by our values but it is difficult to measure values."

Prior to the Global Dialogue, it was identified that there was a specific need for tools to identify and measure how companies and individuals behave. During the afternoon session on the first day, several of these tools were presented.

Andreas Suchanek of the Wittenberg Center for Global Ethics presented his recently developed Ethical Compass for Responsible Leadership. Suchanek's compass revolves around the idea of embeddedness and the need to 'Do no harm.' We should all recognize that we are embedded in reality and that for each of our goals *(and how we pursue those goals)*, there are side effects that affect those around us. Our goals and actions are dependent on incentives and are 'framed by our understanding of the rules of the game.'

Following Suchanek, Catherine Young of Oxford Analytica presented the recently developed Corporate Stewardship Compass. This tool was created to help companies move beyond 'Corporate Social Responsibility' to a more holistic approach to values and practice. Indeed, the end goal is to arrive at holistic accountability for a company's actions.

Finally, Steve Young, Global Executive Director of the CRT, presented the CRT's Decisions Styles Inventory (DSI) and Arcturus. Young began his presentation by focusing on Martin Luther's endearing legacy of calling for vocation and highlighting the role of individual impact.

The CRT understands that our actions are energized by our values but it is difficult to measure values. The DSI is a tool designed to get at and measure values on an individual level.

The afternoon session deftly wove together the issues facing our society, presented in the morning session, with the necessary tools to measure and combat those problems both on an individual level and a company/cultural level.

The second day of the Dialogue featured presentations by Michele Bongiovanni, CEO and Founder of HealRWorld and Father Emmanuel Lemelson, Greek Orthodox priest and hedge fund manager.

HealRWorld works to bring socially conscious consumers together with businesses focused on sustainability. Bongiovanni has collected reams of data on 'values-based consumers' – consumers who care about ethical behavior from companies. Bongiovanni's company uses big data to increase transparency for consumers and to advocate for companies focused on sustainability. The presentation tied directly to the running theme of Luther and the empowerment of individuals to act in a capitalist system to advance the Sustainable Development Goals.

Father Emmanuel is a prolific author and public speaker devoted to his church and the importance of behaving ethically in the face of financial malfeasance. Lemelson stressed a need to be enterprising and the importance of speaking the language of the plutocracy. If there is malfeasance evidenced in a company's balance sheet, it should be noted, publicized and – when possible – a profit should be made. This was Lemelson's contribution to spiritual fulfillment. In another connection to Luther's long shadow and his concern for finding a vocation, Lemelson noted the need to use your individual talents – your calling – to help others and find spiritual fulfillment.

Following these presentations, Steve Young presented his recently developed Protestant Social Teachings, which then evolved into a lengthy discussion on the role of the individual and vocation.

"Post-modern cultures have severed power from justice and individual rights from responsibilities."

The four principles of Protestant Social Teachings identified by Steve are:

**1) Common Grace**

The Kingdom of Heaven is all around us. We are privileged to live in a realm into which we are born which can nourish and sustain us all our lives. The Kingdom of Heaven is like leaven in bread – it permeates the loaf. There is no place where it cannot be.

Common grace embraces all under God who "maketh his sun to rise on the evil and on the good, and sendeth rain on the just and on the unjust." *(Matthew 5:45)*

Common grace is God's care for the created world: "Consider the ravens: for they neither sow nor reap; which neither have storehouse nor barn; and God feedeth them: how much more are ye better than the fowls?" *(Luke 12:24)*

As we live in the realm of common grace, we should be mindful of our heritage and our earthly opportunities as gifts for which humble gratitude is due.

**2) Justified Personhood**

By fate, we are born into the realm of common grace and its constraints; through passion, we are made willful; through faith and grace, we become better. The quality of our being within the realm of common grace becomes an immediate pursuit for us of excellence, separate from our hopes, to have and hold that grace which is eternal.

"Just as a mustard seed grows to great size, so too we are to grow and become." *(Matthew 13:32)*

Jesus suggested that we are to be in the realm of common grace as salt – to fit our purpose, to do our proper work, we must not lose flavor. That means we are to "Live not by bread but by every word of God." *(Matthew 4:9)*

The rightful human person has virtues inspiring conduct with constructive idealism, empowering the self to act out of wisdom and purposing the will to do justice.

Living by virtues makes the soul happy. As Jesus asked, "For what is a man profited, if he shall gain the whole world, and lose his own soul?" *(Matthew 16:26)*

### 3) The Moral Sense

We are naturally enabled to become justified persons. We have the capacity for faithful acceptance of that which cannot be seen today, of that which is not yet instantiated in the world. We have the capacity to provide grace, to give and receive love. We have the capacity to possess virtues.

Jesus affirmed the constructive use of free will when he said "A good man out of the good treasure of the heart bringeth forth good things." *(Matthew 12:25)*

We can always change our ways. Going astray does not preclude us from recovery of a good heart, as Jesus suggested in the parable of the prodigal son. *(Luke 15:11-32)*

Jesus taught that the Kingdom of God is within us and that through love of God and neighbor, we can come to a place "not far from the Kingdom of God." *(Mark 13:34)*.

### 4) Vocation

Through service in our work inspired by grace and sustained by faith, we become justified as human persons. Whatever our standing is, we can be ministers of a higher good, a greater glory.

As Christ came to minister, so therefore does ministry uplift and sanctify a person. *(Matthew 20:28; Mark 10:45)*. The vocation he assumed was that of a good shepherd. (John 10:11). He advised stewardship as the path to distinction in the realm of common grace. *(Matthew 20:27)*. "The greatest among you will be your servant." *(Matthew 23:11)*

Thus, in all our engagements with others, we have a calling to do right by them, just as they reciprocally are to do right by us. Whether among friends, within the family, in a trade or business or seeking to exercise a public office, we are to think of ourselves as seeking some worthiness greater than our own self-satisfaction. That we might put ourselves at odds with another should give us pause until we have reflected well on the circumstances and the goals of our respective vocations.

You can find the full statement of Protestant Social Teachings on the CRT website found at: *www.cauxroundtable.org*

Luther believed that all individuals have the capacity to change and improve themselves.

However, we can become prisoner to our habits and vices, particularly if they have led to some success on an individual level. It is up to us to find our vocation, our calling and – when necessary – speak truth to power. This is what Luther did 500 years ago – spoke truth to power and brought the role of the individual back into focus in the power structure of the age. In our current system, the power structure undoubtedly revolves around capitalism.

The Reformation started by Luther provided cultural and intellectual space for the rise of faith in natural law and its use in modern science. Natural law and science, in turn, flowered in the Enlightenment, leading to modernity through institutionalized rationality in the economy, culture and politics. But Enlightenment faith in reason created space for the rise of a post-modern culture of narcissism where self-actualization, without respect for values and virtue, became the common wisdom for educated elites.

Post-modern cultures have severed power from justice and individual rights from responsibilities.

Reformation emphasis on the responsibility of individuals before God and humanity can be a constructive counter-balance to the meanness and nihilism of post-modern selfishness.

The core Reformation Principles for living a worthy life in the realm of common grace are:

1) Individuals are chosen of God to be responsible stewards in the use of earthly powers.

   Each individual is called to be a minister of God. As we receive grace from God, so we must reciprocate by giving grace back to his creation.

2) Each individual is to use their ministry in service of God's providence by finding their own unique vocation and giving their full loyalty to that work, taking due care in the execution of their trusts.

3) In this service, each individual must respect every aspect of God's creation, from their neighbors to the environment.

One of the most important aspects of Luther´s thinking – if not the most important one – was the decisive importance of every individual human person: When making a judgment about the right thing to do, it comes to one acting in accord with what one thinks is the right thing to do and also with regard to accountability before God and any "neighbor," it is the individual person who is called upon.

Recent data has shown that, more and more, people are turning against – or at the very least, are developing negative attitudes towards – capitalism as a system for improving life. Is this due to a failing of the system, a failure of individuals within the system...both? We need a balancing of environmental degradation and inequality with a cultivation of moral capitalism. In order to have capitalism on a sustainable level, we need to realize the dangers of compulsive consumerism and we need to seek integrative development of both personal and human progress.

In modern capitalism, there has been a destabilizing privileging of capital to focus, above all else, on the making of cash profits – in essence, turning capitalism into a tool of those who neglect their moral sense and so put themselves outside civilization.

The reformation of capitalism should work to re-incorporate capital into civilization. This would allow for the personalization of business ethics and responsible behavior within business.

During the Dialogue, the point was raised that there is no other realm in civilization that allows the same level of unethical behavior – on such a grand scale – as in business. This is certainly not to say that all business is somehow unethical but, rather, that only in business are you so easily able to operate unethically and become so successful. By reincorporating capital back into civilization, we can work civilization – indeed, civility – back into the uses of capital.

Part of civilization is the role of the individual. Furthermore, of utmost importance in modern civilization is the freedom of the individual. Capital, private property and enterprise, in others words, work, provide individuals with the means to be fully human.

Truly free individuals have freedom but with freedom comes responsibilities. The essence of modernity – "We're the inheritors and creators of technology that is so remarkable we could end all hunger on the planet but also could end all human life," as Sachs noted in his presentation, "We are responsible for this juggernaut." Modern responsibilities have become globalized at the same time our society has become increasingly atomized.

It is precisely the new, globalized nature of responsibility that has increased the need for finding our own sense of vocation. As society becomes more fragmented, it is easy to lose the sense of your life as a whole having a meaning – that what we do here matters somewhere else.

Globalization has impacted the sense of 'place' and community – indeed, in many cases, causing a complete loss of common ground – and has changed the relevancy of the social contract.

Luther showed the power of unleashing self-interest and the potential of the individual. Having an individual focus means that this process of change – or 'reformation' – can be both top-down and bottom-up. It needs to be felt throughout entire organizations and the corporate culture needs to reflect a respect for vocation and ethics. It is in that spirit that we see continuing efforts as not just making a list of corporate values, which can be easily ignored, but rather, a true empowering of the individual to embrace the vocational tradition of ethics through selfassessments and strategic goal-setting for organizations.

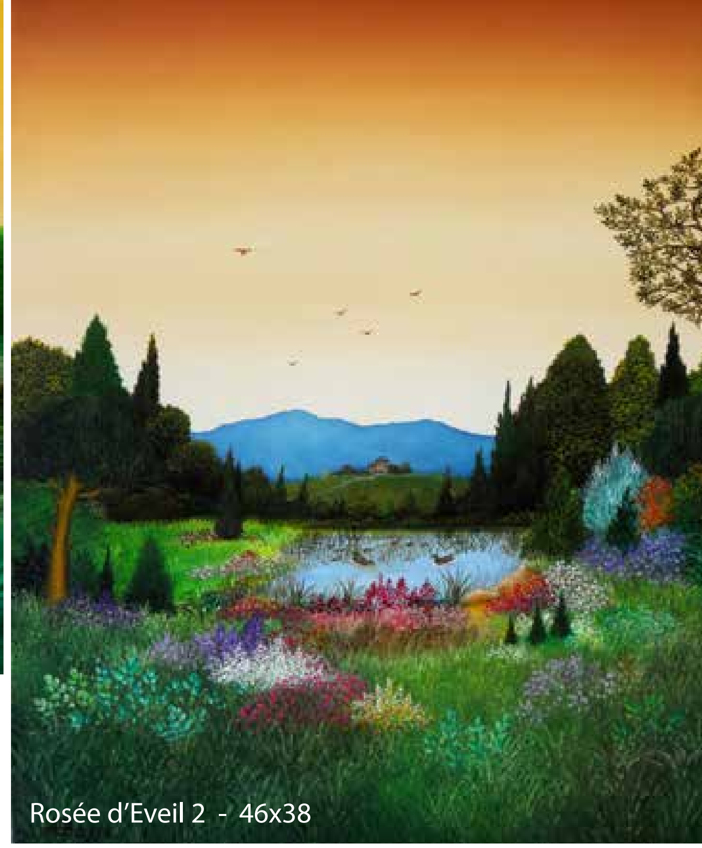
After several thought-provoking days in Wittenberg, Germany, we left energized around the project of a reformation of capitalism. We realized there is much that we, as individuals and together as a group, can 'do.' The power of individuals acting ethically, through their vocations,

to impact change in the world – and the systems undergirding that world – should never be minimized.

Modern capitalism has strong, internal tendencies which can become a "beast loosed upon this world." Through all of our individual efforts, we can minimize these tendencies and replace them with more constructive and noble ones which will make our world function more ethically, equitably and sustainably.

***Stephen B. Young***
*Global Executive Director*
***Caux Round Table***

Rythme d'Eau 2 - 46x38



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CARA GALERIE MARS

L'Offrande - 46x38

# Alain BESSE ...

## Poète? Artiste peintre?

### En tout cas, une joie de l'esprit.

Victor Hugo disait: *"Dis ne le crois-tu pas? Sur nous, tout en dormant la nature à demi veille Amoureusement. Pas un nuage au ciel. Tout, comme nous, repose. Viens, respire avec moi l'air embaumé de rose!"*

C'est bien ce que pourrait dire Alain BESSE. Cet artiste peintre possède la "création" en lui, en son cœur et il respire cet air embaumé de la nature toute entière.

Il possède le sens du réel dans l'irréalité du rêve, de l'esprit toujours ouvert à la foi qui donne l'image de la vérité, dans une vérité exprimée avec une âme animée d'un sentiment d'amour. Toute son œuvre est une interprétation de cet amour pour ce qui est une présence dans notre regard qui jaillit au dehors de son "soi" vers la nature vivante.

Il s'exprime avec une particularité surprenante qui le fait "lui" Alain BESSE. Une particularité qui apporte une vérité nouvelle qui vous donne de la joie. Alain BESSE est exceptionnel dans son hyper réalisme. Il sait "dire" ce qui pourrait être dans ce qui est vivant autour de lui, sans oublier ce petit air d'évasion dans ses petits oiseaux qui figurent à peine dans son expression picturale. Toute cette" nature veille amoureusement" et Alain BESSE sait, avec une foi qui l'anime généreusement, retrouver cette nature qui veille dans le calme de son coeur, continuellement, et ses "doigts" traduisent, seuls, cet éclatement spirituel qui le fait ce qu'il est: un artiste incomparable.

**Yves BRO**
Critique d'Art
Mars 1998

# CONFESSIONS
## of a '40-years' veteran financial adviser: My best and worst investments?
## *(for a good laugh!)*

## Leong Sze Hian
**Member, CIFA Advisory Board**

*He has served as president of 4 professional bodies, honorary consul of 2 countries and founding advisor to the financial planning associations of 2 countries - an alumnus of Harvard University, has authored 4 books, quoted over 1500 times in the media , has been a radio talkshow host, newspaper columnist, Wharton Fellow , SEACeM Fellow , executive producer of Ilo Ilo (40 international awards), He has 3 Masters, 2 Bachelors degrees and 13 professional qualifications.*

A reader who follows my articles made a rather unusual request. He asked if I could write about my best and worse investments in my lifetime.

Initially, I was a bit reluctant to kind of "open up" my life – but then – here it is:

**Worse investment ever** – US$5,000 in a Pakistan closed-end fund that was listed in a United States stock exchange – only got about $100 back when the managers decided to close the fund.

**Best investment ever** *(from my heart as I still don't know what the returns are exactly yet):* as one of the executive producers (investors) of the movie '**Ilo Ilo**', which won 40 international awards.

**Worst emotionally stressed investing experience:** I had a call in the middle of the night that all my dollar/yen forex positions would be closed out *(margin breached)* as there was a sudden huge surge in the Yen. Although I was half asleep – I fortunately had the presence of mind to plead that my position be liquidated one lot at a time – luckily the dollar did recover somewhat and I lost US$59,000 in one night *(my biggest one day loss ever in investing)*.

**Most illogical investment goal:** I traded forex for about 1 year, until i made back the U$59,000 I lost. I never touched forex trading after that!

**Most funny investment:** I was in London with nothing much to do and researched *(after listening to a BBC radio programme)* and bought a British lordship for about 5,000 pounds in 1995 *(I'm the Lord of Newsham, North Yorkshire – title goes back to the time of William the Conqueror in 1066 – at one time in history owned by the inventor of the cotton wheel)* – but the marketable title never appreciated in price I believe – with frequent talk about discontinuing hereditary titles in the United Kingdom.

**Most "never gave it a thought" investment:** I bought 2 unit trust funds in Jamaica in 1998 when I was the honorary consul of Jamaica to Singapore – they have performed quite well in US$ terms – think about 6% per annum.

**Best long term investment:** the house I'm staying in was pirchased by my late father in 1955 for $15,000. I have been told that it is now worth over 300 times *($5 million)* after 63 years. Over the years, quite a lot of people have suggested selling to cash out, tear down and build 2 houses, etc – but I guess if you are confortable staying in a home – why sell? Life is not all about money right?

**Worse "leisure" investment:** 2 country club memberships that eventually became worthless.

**Worse "holiday" investment:** $6,000 for a one week a year timeshare for 30 years which I gave up after about 15 years *(have to be very flexible to travel wherever and whenever it was available)* – had some very interesting travelling experiences like staying in a castle in the United Kingdom though, but as an investment it turned out to be a dud *(or at least that was what the timeshare salesman said)*!

**Most interesting investment-related experience:** hosted a weekly one hour money radio talkshow for 3 plus years.

**Most "blur" investing-related experience:** had a daily column in a Chinese newspaper – I can't read or write Chinese – can only talk to the journalist in my broken Chinese!

**Best thing that I never "invested" in:** failed my highway code in my 20s – so, never had a driving license. I estimate that I may have saved about $2 million already *($1,000 compounded at 6% for 40 years from age 24 to my age now: 64)*.

# Will your pension sustain you through retirement?

**Daphne Foulkes**
**Partner, The Spectrum IFA Group**
**FECIF Board Member**

It is widely known that Europe's ageing population is a problem for EU Member States. Quite simply, people are living longer and this impacts on the sustainability of State pension systems, referred to as the **first pillar**. Member States may attempt to address this issue by raising State pension ages and increasing the number of years that people need to qualify for a full State pension. However, this then impacts on the standard of living that retirees can expect to attain, unless additional provision is made.

In some Member States, employees may benefit from occupational pension schemes that are sponsored by their employer. These are known as **second pillar** schemes and if a promise of a defined benefit pension related to salary and service is on the horizon, then this is highly advantageous. However, employers too are feeling the strain of funding such promises and so are increasingly closing defined benefit schemes and putting in place alternative defined contribution plans. There is no benefit promise and the employee will get whatever the eventual 'pension pot' purchases. In short, the risk of meeting the target benefit is passed on to the employee.

**Third pillar** pensions are also 'money purchase' and these sit on top of the first and second pillars. Voluntary by nature, these plans can make the difference between a comfortable or a poor retirement. Such additional pensions may also provide a 'bridge' to State retirement pension commencement, if the benefits can be accessed before the State retirement age. However, without appropriate and regulated advice, the saver may find out all too late that their aspirations for a financially secure retirement are not met. Saving sufficient amounts and investing the monies wisely are both essential requirements, but so too is taking advice.

Pension entitlement is a complicated subject. Regular reviews with the adviser should be carried out to check that the 'pension pot' is on target to achieve objectives. Generic on-line advice is unlikely to be enough, particularly if the person has accumulated several 'pension pots'. Moreover, if a person has had a cross-border career, how does the 'pension pot' acquired in one State dovetail with one in another State? How are the State pensions earned in each Member State impacted by the EU State pension co-ordination rules? How do the diverse tax rules across Member States affect the outcome for the saver? These are just a few of many questions that should be addressed by the adviser – a robot cannot do this!

In June last year, the European Commission launched its proposal for a Regulation on a pan-European Personal Pension Product (PEPP), as a third pillar pension. In States where the first and second pillar systems are not well-developed, the PEPP may offer a solution for citizens who may be facing a poorer retirement. In other States, the PEPP should provide more choices to its citizens.

Whilst the PEPP initiative is welcomed,

the Regulation as drafted, already presents some barriers to becoming a successful cross-border pension arrangement. The PEPP has the potential to contribute to the Capital Markets Union, but only if the barriers are overcome. Regulatory and fiscal rules diverge between the 28 Member States and so pragmatism and co-operation are needed to reach a solution. If the tax incentives are insufficient, and subject to change after an arrangement has commenced or even harmonised, the PEPP is unlikely to succeed.

The PEPP Regulation proposes a limited number of investment strategies be made available by PEPP providers. This includes a "safe investment option", as a default option, which should provide a capital guarantee. The merit in capital guarantees for pension products is questionable, as these are expensive to provide. The result being that to support the capital guarantee *(if in fact a real guarantee can be provided – and by what institution?)*, this would require low-yielding investments and consequently at retirement, the capital may be insufficient to provide an adequate level of income to supplement other pensions. Thus, the reference to a "safe investment strategy" could be misleading to the saver.

However, rather alarming is the proposal that the PEPP saver can waive the right to receive advice, if he/she selects the default investment option. It is arguable that PEPPs should not be sold on a non-advised basis, even in these circumstances. The Regulation as currently drafted could lead to the saver losing purchasing power, since an obligation to provide inflation-proofing has not been included.

Furthermore, the impact of national pension entitlements, varying decumulation options and retirement ages, particularly if the PEPP saver has cross-border accumulated benefits, strengthens the need for the PEPP saver to receive appropriate professional advice. Hopefully, the European Commission will also come to this conclusion.

***Daphne Foulkes***

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# The Job Guarantee *Should Unite Anyone Interested in Strengthening Families*

**William K. Black**
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*__WILLIAM K. BLACK__ teaches Economics and Law at the University of Missouri–Kansas City (UMKC).*

*He is a white-collar criminologist. He directed the Institute for Fraud Prevention. His regulatory career is profiled in Professor Riccucci's book Unsung Heroes. George Akerlof called his book, The Best Way to Rob a Bank is to Own One (University of Texas Press 2005, 2014), "a classic."*

*Paul Volcker wrote: One of those lessons really sticks out: one brave man with a conscience could stand up for us all.*

*Black helped the World Bank develop anti-corruption initiatives and testified to Congress five times about the financial crisis.*

*He is also the "Distinguished Scholar for Financial Regulation" at the University of Minnesota's Law School and a Professor at IAEN in Quito, Ecuador.*

The University of Missouri – Kansas City recently hosted the first conference on Modern Monetary Theory (MMT) and a closely associated idea, a federally-backed job guarantee for everyone willing and able to work. On September 25, 2017, the New York Times published an article exemplifying one of the applications of the job guarantee that would provide a win-win that should unite anyone interested in strengthening the family. The title is ***"How Did Marriage Become a Mark of Privilege?"*** Claire Cain Miller authored the column, and her key takeaway are in these two passages.

> *Fewer Americans are marrying over all, and whether they do so is more tied to socioeconomic status than ever before. In recent years, marriage has sharply declined among people without college degrees, while staying steady among college graduates with higher incomes.*
>
> *Americans across the income spectrum still highly value marriage, sociologists have found. But while it used to be a marker of adulthood, now it is something more wait to do until the other pieces of adulthood are in place — especially financial stability. For people with less education and lower earnings, that might never happen.*

These facts establish an obvious policy that could unite the public. The combination of MMT full employment policies and the job guarantee is the best way to strengthen family financial stability. The United States, which has a sovereign currency, can do that. The European Union nations that lack a sovereign currency will frequently be unable to do so.

Jobs, not simply income, are essential to many humans' happiness and sense of self-worth. Unemployed American men, for example, do less housework than do employed American men. Businesses are deeply reluctant to hire the unemployed, particularly if they have been unemployed for any significant time. The 'cliché' of males responding to unemployment through depression has considerable truth.

Miller's article notes that there is an unproductive split between conservatives and progressives about how to strengthen families. Conservatives tend to claim that the problem is cultural. Progressives generally agree that culture is important, but note that the surest and quickest way to make productive changes in culture is frequently economic. Progressives oppose conservatives' punitive and authoritarian policies that purport to change culture and note that they have failed. Miller correctly notes that the economics and culture are closely interrelated.

Conservatives deeply resent safety net programs in which the recipients are able to work but decline to do so. The complementary steps to run a consistent full-employment program are to follow MMT principles with an employer-of-last-resort job guarantee program. The job guarantee does not merely guarantee that anyone willing and able to work in the government or non-profit sectors can do so; it finesses the disinclination of private sector employers to hire the unemployed. We can provide a full employment economy with rates of inflation so low that even *(very conservative)* central bankers consider desirable, not simply acceptable.

The job guarantee program would also allow us to close one the great perception gulfs between progressives and Trump's supporters. Trumps supporters believe that disfavored minorities prefer not to work and live on the dole. Progressives believe the opposite. The jobs guarantee would provide the definitive test that could end any debate and replace perceptions with an easily observable reality. The job guarantee test has the potential to do what female employment in World War II did – destroy prejudiced myths that 'everyone' knew were true. It turned out that women could do a massive array of jobs and that they were interested in doing so.

## Several Themes

This column is about the general topic of the conservatives' culture wars in which the family is ground zero. I develop several themes.

**First**, that their culture war rests on false premises. There are win-wins available, particularly through the job guarantee and MMT that allow great progress in strengthening the family. Progressives would be delighted to work with conservatives to implement these winning strategies.

"Women could do a massive array of jobs and they were interested in doing so."

**Second**, the policies that the conservative culture warriors are pushing rest on bogus claims. They also fail.

**Third**, the policies that the conservative culture warriors are pushing are nasty. They represent authoritarian, dogmatic, and bigoted pathologies that have long disgraced America.

**Fourth**, the conservative culture warriors do not address most of the critical problems Americans and others face. They religiously ignore the cultural/ethical problems of conservative elites and the Republican Party and the harm that these cultural/ethical problems inflict on Americans and the peoples and creatures of the world. The culture warriors overwhelmingly support and assist Republicans implementing pathological policies arising from these cultural/ethical problems. Those pathological policies channel the most disgraceful American traditions.

**Fifth**, the conservative culture warriors religiously refuse to join progressives and others in embracing cultural values the conservatives purport to treasure even though there is an obvious potential for broad consensus on a broad range of cultural and ethical views and policies that represent the very best of American traditions. The conservative culture warriors are hypocrites who want a culture war that energizes the worst elements of their base even though they know that the result will be to degrade American values and practices and cause immense harm to the "other."

## Other Win-Wins We Can Implement to Strengthen Families

We could build on these win-wins by getting rid of federal subsidies to places that are not real colleges – the scores of fraudulent for-profit schools. Fraudulent for-profit schools do not provide the benefits to employment and marriage that real public and non-profit community colleges, colleges, and universities provide. This reform would also greatly reduce eventual losses due to student loan defaults.

Conservative culture warriors that run the Education Department are racing to prevent sanctions against these fraudulent schools. Other conservative culture warriors applaud this obscenity.

We could create another win-win by providing real sex education *(rather than the sham of "just say no")* and provide ready access to contraceptives including the morning after pill to poorer women. All of these reforms reduce considerably births outside of wedlock. Conservative culture warriors in the Trump administration are trying to eliminate these successful programs – and the conservative culture warriors outside the administration are cheerleaders for the travesty.

A win-win policy that has been shown to be exceptionally effective is the provision for home visits by specially trained nurses to new moms who are most at risk of being overwhelmed. The nurses explain and demonstrate, for example, the importance of moms talking pervasively to their infants. The Trump administration's culture warriors targeted the program for elimination because it is successful. Conservative culture warriors know the program works, but refuse to oppose their fellow warriors.

## Even When the Culture Warriors Talk Economics They Get it Wrong

"Financial stability" is the key concept, one that "pro-marriage" cultural warriors and weak economists have repeatedly failed to comprehend. Their typical "analysis" goes like this – if poor women would only marry their boyfriends, they would have materially larger income and only modestly larger living household expenses. *(Their analysis almost invariably purports to describe the marriage decisions of poorer, heterosexual women, so I address that context.)* The simplistic idea is that adding the male's income to that of the poor woman means that she and her children must be better off. The only slightly less simplistic version of this claim is that married couples tend to have stronger economic results than do the unmarried. Both arguments ignore the most important and fundamental applicable principle of finance – risk. Fortunately, poor women apply a more sophisticated analysis to the question of marriage than do these economists.

"Financial stability" is the key concept, one that "pro-marriage" cultural warriors and weak economists have repeatedly failed to comprehend.

Risk, as most poor women understand, is the key. It is not sufficient that the male, on the average day, would be a source of financial strength, particularly if the mother has children. If the male does not have stable income, creates a material risk of increased expenses, or both he is a threat to financial stability that can put the mom and her child at grave risk. One car accident, while impaired or even tripping on the stairs, while impaired and breaking a leg, can put the household in a financial crisis. The typical working class household has under $400 in savings. Even if they have auto and medical insurance, the deductible plus the loss of work due to the injury or wrecking the auto can instantly hurl the household's financial stability into a desperate crisis. If the male's job is unstable with material periods of unemployment or underemployment the household is made more unstable. If the male becomes depressed when these episodes occur the financial and family instability increase greatly.

If the male has expensive tastes for non-essential goods or if he has a substance abuse problem, he makes the household more unstable financially and in terms of safety for mom and her kids. If the male is violent or hostile towards mom or her kids, or indifferent or unreliable in providing childcare, he makes the household more dangerous and unstable.

It is impossible to "hold constant" for these factors in an empirical test. Heterosexual moms are in the best position to judge the strengths and frailties of potential male mates. If the man is interested in marrying her, and seems to the primitive economist to add to the household's total wealth, and she does not want to marry him the logical inference is that she has a reason for her unwillingness. The types of risks I have explained are realistic examples of those reasons. In statistical jargon, they represent "unobserved differences" – unobserved by the researcher who cannot "hold constant" for them, but observed by the heterosexual women making the decisions whether to marry a particular man.

The job guarantee does not eliminate many of the risks I have described. It would improve job and income stability, particularly for working class males. That would be unambiguously good for men, women, the economy, and our culture. The ability to run a real world test that demonstrated that disfavored minorities do want to work could reduce bigotry and our cultural and political divisions.

In my second column in this series, I criticize Mark Regnerus' false assertion that working class male employment stability is unrelated to women's decisions whether to marry. Miller's column provides a useful corrective.

> In a working paper published in July, three economists studied how the decline in manufacturing jobs from 1990 to 2014, across industries and regions, "contributed to the rapid, simultaneous decline of traditional household structures."
>
> Labor market changes made men less marriageable, they concluded. There were fewer available men, because unemployment was associated with a rise in incarceration or mortality from drugs and alcohol. The men who were left were less desirable, because they lacked income and were more likely to drink to excess or use drugs.
>
> Researchers found a corresponding increase in births to unmarried mothers. The decline in marriage was not offset by more couples living together.
>
> * * *
>
> Never-married adults cite financial instability as a major reason for being single, especially those who are low-income or under 30, according to a new Pew Research Center survey. Most men feel it's important for a husband to be a financial provider, especially men without college degrees, according to another new Pew survey.
>
> Women, meanwhile, have learned from watching a generation of divorce that they need to be able to support themselves. And many working-class women aren't interested in taking responsibility for a man without a job.
>
> ***"They say, 'If he's not offering money or assets, why make it legal?'"*** said June Carbone, a law professor at the University of Minnesota and the author with Naomi Cahn of ***"Marriage Markets: How Inequality Is Remaking the American Family."***

*(June Carbone is the inaugural holder of the Robina Chair in Law, Science and Technology at the University of Minnesota's Law School. She is also my spouses.)*

PS ... Carbone notes that marriages in which both couples have at least college degrees have vastly lower divorce rates. If you are in college and contemplating marriage after graduation do not assume that you are doomed to a high risk of divorce.

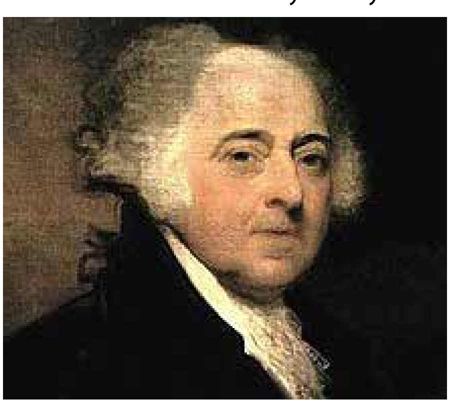
***William K. Black***

# On Democracy Versus Liberty:

## President Trump Fails to Understand the Founders, as Have All Presidents Since Wilson

In the aftermath of World War I, President Woodrow Wilson set out to make the world safe for democracy. Since then, U.S. Presidents have marched to the drumbeat of Wilsonian idealism. Indeed, most U.S. foreign policy is carried out under the pretext — and in some cases perhaps the genuine belief — that America is delivering democracy to the rest of the world. President Trump's recent pronouncements at the United Nations are neither new nor unusual.

Most people, including most Americans, would be surprised to learn that the word **"democracy"** does not appear in the **Declaration of Independence (1776)** or the **Constitution of the United States of America (1789)**. They would also be shocked to learn the reason for the absence of the word democracy in the founding documents of the U.S.A. Contrary to what propaganda has led the public to believe, America's Founding Fathers were skeptical and anxious about democracy. They were aware of the evils that accompany a tyranny of the majority. The Framers of the Constitution went to great lengths to ensure that the federal government was not based on the will of the majority and was not, therefore, democratic.



The Constitution divided the federal government into legislative, executive and judicial branches. Each branch was designed to check the power of the other branches. The Founders did not want to rely only on the voters to check government power. As a result, citizens were given very little power to select federal officials.

Neither the President, nor members of the judiciary, nor the Senate were elected by direct popular vote. Only the members of the House of Representatives were directly elected by popular vote. Even in this case, the franchise was quite restricted.

If the Framers of the Constitution did not embrace democracy, what did they adhere to? To a man, the Framers agreed that the purpose of government was to secure citizens in John Locke's trilogy of the rights to life, liberty and property. The Framers wrote extensively and eloquently. On property, for example, John Adams wrote that ***"the moment the idea is admitted into society, that property is not as sacred as the laws of God, and that there is not a force of law and public justice to protect it, anarchy and tyranny commence."***

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The Founders' actions often spoke even louder than their words. Alexander Hamilton, a distinguished lawyer, took on many famous cases out of principle. After the Revolutionary War, the state of New York enacted harsh measures against Loyalists and British subjects. These included the Confiscation Act (1779), the Citation Act (1782) and the Trespass Act (1783). All involved the taking of property. In Hamilton's view, these Acts illustrated the inherent difference between democracy and the law. Even though the Acts were widely popular, they flouted fundamental principles of property law. Hamilton carried his views into action and successfully defended — in the face of enormous public hostility — those who had property taken under these three New York state statutes.

The Constitution was designed to further the cause of liberty, not democracy. To do that, the Constitution protected individuals' rights from the government, as well as from their fellow citizens. To that end, the Constitution laid down clear, unequivocal and enforceable rules to protect individuals' rights. In consequence, the government's scope and scale were strictly limited. Economic liberty, which is a precondition for growth and prosperity, was enshrined in the Constitution.

After European settlement, America consisted of thirteen English colonies. They benefited from a rather light administration from London and salutary neglect. This contrasted with the French colonies, which were controlled from Paris, and the Spanish colonies, which had entire institutional superstructures imposed from Spain.

Everything did not go well in the American colonies, however. One major colonial problem centered on money. Officially, British silver coins were the coin of the realm in America. But there were problems. The Navigation Acts prohibited the export of silver coins from England. There was also a prohibition against any of the colonies establishing mints. As a result, there was an endemic shortage of silver coins in the colonies. To fill this large gap, bills of credit were issued and circulated freely during the first half of the eighteenth century.

This resulted in high inflation, which forced most of the colonies to abandon fixed exchange rates and a specie standard. Things finally deteriorated to such an extent that the British Board of Trade imposed the Currency Acts of 1751 and 1764. These prohibited the issuance and use of bills of credit not fully backed by specie. The prohibitions against paper money created an enormous source of resentment in the colonies. Coupled with the better-known Stamp Act of 1765, the prohibitions on bills of credit set the stage for the Declaration of Independence and the ensuing Revolutionary War.

The Revolutionary War added to America's money problems. The best estimates place the cost of the Revolutionary War at about 15 to 20 percent of the colonies' GNP. Roughly 85 percent of it was financed with fiat money. During the 1775-80 period, annual inflation was about 65 percent. Subsequently — and prior to the Constitutional Convention (1787) — the economic situation was one in which individual states increased taxes and regulations dramatically and money remained unstable. In addition, there was a great deal of political corruption and scandal. And to top it off, the economy was in a general slump which was punctuated by the crisis of 1787.

As a reaction to the overall political-economic situation, the Constitutional Convention convened in 1787 in Philadelphia. In due course, the Constitution was crafted and ratified in 1789. It is a short, clear, intelligible document. The Constitution's preamble contains only 52 words which are followed by seven short articles and ten amendments known as the Bill of Rights (1791).

The original Constitution established the rule of law and limited government. It is noteworthy that about 20 percent of the Constitution itemizes things that the federal and state governments may not do, while only 10 percent of the Constitution is concerned with positive grants of power. In total, the legitimate powers granted by the Constitution were less than those that had existed. The bulk of the Constitution — about 70 percent — addresses the Framers' conception of their main task: to bring the United States and its government under the rule of law.

The Constitution is primarily a structural and procedural document that itemizes who is to exercise power and how they are to exercise it. A great deal of stress is placed on the separation of powers and the checks and balances in the system. These were not a Cartesian construct or formula aimed at social engineering, but a shield to protect the people from the government. In short, the Constitution was designed to govern the government, not the people.

The Bill of Rights establishes the rights of the people against infringements by the State. The only thing that the citizens can demand from the State, under the Bill of Rights, is for a trial by a jury. The rest of the citizens' rights are protections from the State. For roughly a century after the Constitution was ratified, private property, contracts and free internal trade within the United States were sacred. The scope and scale of the government remained very constrained. All this was very consistent with what was understood to be liberty.

A remark about the Framers and the public is in order. There were 55 Framers and 35 had attended college. The college entry standards in those days were very high and strict. At the age of 14 or 15, the normal college entry age, students were required to be fluent in both Latin and Greek and proficient in the Classics. They were skilled at the art of rhetoric and were keenly aware of the necessity of garnering public support for their constitutional project. For the Framers, policies needed to be developed from the bottom up.

## Paper Money and Debt were Innovations of the Colonial Era

At the time, Americans were literate and well informed, via pamphlets and manuscripts, about the political debates of the day. There were four times as many newspapers in the United States as there were in France, which was the center of continental thinking and debate on many constitutional and philosophic matters. The Federalist Papers were published in 1787 and 1788 in New York City's Independent Journal, an ordinary newspaper. These important essays — written under pseudonyms by Alexander Hamilton, James Madison and John Jay — were of very high quality and set the stage for the Constitutional Convention and the resulting product. In passing, it is worth mentioning that Hamilton organized this project, wrote most of the essays, and of all the Founding Fathers, performed most of the intellectual work for the least historical credit. That said, two notable economists have given Hamilton his due. Lionel Robbins thought the Federalist Papers were ***"the best book on political science and its broad practical aspects written in the last thousand years."*** And if that were not enough, Milton Friedman wrote in 1973 that Federalist Paper 15, written by Hamilton, ***"contains a more cogent analysis of the European Common Market than any I have seen from the pen of a modern writer."***

After the Constitution was ratified and George Washington was elected President, the new federal government lacked credibility. Public finances hung like a threatening cloud over the government. Recall that paper money and debt were innovations of the colonial era, and that once the Revolutionary War began, Americans used these innovations to the maximum. As a result, the United States was born in a sea of debt. A majority of the public favored a debt default. Alexander Hamilton, acting as Washington's Secretary of the Treasury, was firmly against default. As a matter of principle, he argued that the sanctity of contracts was the foundation of all morality. And as a practical matter, Hamilton argued that good government depended on its ability to fulfill its promises.

Hamilton won the argument and set about digging the country out of its financial debacle. Among other things, Hamilton was — what would today be called — a first-class financial engineer. He established a federal sinking fund to finance the Revolutionary War debt. He also engineered a large debt swap in which the debts of individual states were assumed by the newly created federal government. By August 1791, federal bonds sold above par in Europe, and by 1795, all foreign debts had been paid off. Hamilton's solution for America's debt problem provided the country with a credibility and confidence shock.

The state of economic affairs in the United States, roughly until World War I, was in the spirit of the Constitution. The economy flourished, with large increases in labor and capital inputs as well as strong productivity growth. There was, of course, one near fatal interruption during this period: the Civil War. The war consumed 15 to 20 percent of GNP, about the same proportion as during the Revolutionary War. War finance was somewhat similar in the Confederacy *(the South)* as it was during the Revolutionary War. About 60 percent of the financing for the southern effort was paper money. The North also resorted to fiat money financing, but at only a 13 percent rate. Consequently, there was an inflationary surge.

In addition to the major disruption caused by the Civil War, it is worth mentioning one major anomaly in the U.S. economy: lands owned by the federal, as well as state and local, governments.

Alexander Hamilton, the first Secretary of the Treasury, wanted to sell the public lands as fast as possible. This did not happen. In consequence, the government still owns a huge amount of real estate. Its surface area is about six times larger than the total area of France. This is a stateowned enterprise. As you might expect, it is also unproductive. Detailed studies of SOE lands indicate that they are only about 25-30 percent as productive as comparable private ones.

America's SOE lands have been the center of repeated debates about the free market system in the United States. Indeed, the American Economic Association put itself at the center of one of these debates. One, possibly the major, motivation for establishing the American Economic Association was as a protest against laissez-faire attitudes in the United States. Not surprisingly, the May 1885 American Economic Review contains three papers justifying the retention of government-owned timberlands!

On the eve of World War I, government expenditures were less than 2 percent of GNP and 99 percent of the population paid no income tax. The income tax had just been introduced, but the top rate was only 7 percent and applied to incomes exceeding $500,000. The federal government had around 400,000 employees, less than 1 percent of the labor force. About 165,000 troops were on active duty. No federal regulations of capital or labor markets existed. Agricultural production and distribution were also unregulated.

There was no minimum wage rate and no social security. One area where there was a rather aggressive interference in the economy concerned the rates and tariffs that the railroads charged. Antitrust was also strong.

The conflagration of World War I marks a violent break with the letter and spirit of the Constitution. Property rights were suspended on a large scale. There were wide-scale nationalizations of rail, telephone, telegraph and to a lesser degree ocean shipping. Over 100 manufacturing plants were nationalized. The government got involved in labor-management relations under the Adams Act in 1916. Conscription was instituted. The Espionage Act was passed in 1917. The Sedition Act of 1918 imposed penalties for anti-government expression, subverting the Bill of Rights. The novelist, Upton Sinclair was actually arrested for reading the Bill of Rights and Roger Baldwin, one of the founders of the American Civil Liberties Union, was arrested for reading the Constitution. President Woodrow Wilson accomplished all this under emergency powers granted to him by Congress in 1916.

Much of this anti-Constitutional apparatus was scrapped after World War I. However, residues remained and eventually resurfaced. All it took were other national emergencies — the Great Depression, World War II, the Vietnam War, and so on. With each, laws were enacted, bureaus created and the budgets enlarged. In many cases, these changes turned out to be permanent. The result is that crises acted as a ratchet, shifting the trend line of government size and scope up to a higher level.

## The United States Was Born in a Sea of Debt

It comes as no surprise that governments spend more money and regulate more actively during crises — wars and economic bailouts are expensive and complicated. But a more active government also attracts opportunists, who perceive that a national emergency can serve as a useful pretext for achieving their own objectives.

The U.S. and other countries seem no more aware of this today than they were in the past. And yet history has provided many examples to illustrate how damaging it is. Take the Great Depression. At that time, the organized farm lobbies, having sought subsidies for decades, took advantage of the crisis to pass a sweeping rescue package, the Agricultural Adjustment Act, whose title declared it to be "an act to relieve the existing national economic emergency."

Almost 80 years later, the farmers are still sucking money from the rest of society and agricultural policy has been enlarged to satisfy a variety of other interest groups, including conservationists, nutritionists and friends of the Third World. Then, during World War II, when government accounted for nearly half the U.S. GDP, virtually every interest group tried to tap into the vastly enlarged government budget. Even bureaus seemingly remote from the war effort, such as the Department of the Interior *(which is in charge of government lands and natural resources)*, claimed to be performing "essential war work" and to be entitled to bigger budgets and more personnel.

Within the U.S. government, the war on terrorism has given cover to a multitude of parochial opportunists, whose proposals range from bailing out the airlines to nationalizing vaccine production. As a result, former President George W. Bush — a so-called conservative — ushered in a record-setting expansion of government. This trend continued with the left-of-center President Obama. And now, populist President Trump promises more of the same.

What lessons can we learn? First, "democracy" and "freedom" are not interchangeable words. Second, only the first century of the American experience represents a standard for freedom. Expanding democracy is a slogan which requires great caution. It can easily result in elected tyranny. Freedom is the concept. Our challenge is to persuade every citizen that benefits flow from freedom's practical applications. Freedom might then flourish in very diverse and unexpected forms in different parts of the world.

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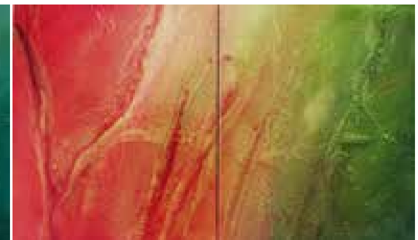
# IMPRESSIONS CORSES



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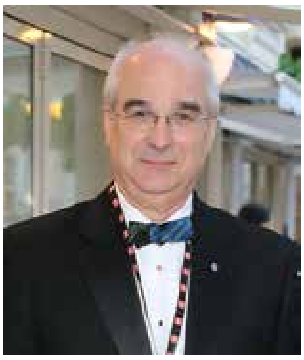
CARA GALERIE MARS

## Margot Issaly

*...nous fait partager son amour de la Corse, entre la mer et la montagne, à travers ses œuvres. Visions intérieures, monde imaginaire, réminiscences d'arbres ou de fonds aquatique, vie rêvée ou vie réelle? A la lisière de l'abstraction et de la figuration, au fil d'une courbe inattendue, au détour de l'effet accidentel d'une forme ou d'une couleur, les œuvres de cette arpenteuse de paysages savent raconter la sensation, la trace, le souvenir de ses somptueuses promenades, de sa Pologne natale à la Corde d'adoption. Rêveries sensorielles inspirées de la végétation aquatique des profondeurs de la mer et aussi de la lumière changeante du ciel, plénitude ou turbulences orageuses. C'est dans la pratique conjuguée de la peinture et de la céramique que Margot Issaly exprime son amour de la vie et sa profonde admiration pour la richesse de la nature. Avec la même spontanéité, avec le même goût du geste qui engage autant le corps que l'âme, l'artiste brosse ses entrelacs subtils, couleurs profondes et chatoyantes mises en transparence par le glacis de sa peinture à l'huile et met au jour des objets de porcelaine blanche à la nudité fragile. La peinture au glacis offre un moyen d'exprimer le ressenti joyeux ou troublant de tout ce qui capte l'attention de l'artiste et touche sa sensibilité. Les pigments choisis provoque un effet de transparence et la superposition de plusieurs couches de couleurs accentue l'effet de profondeur et joue avec la lumière.*

# THE MIDDLE CLASS and DEMOCRACY



**Stephen B. Young**
*Global Executive Director*
**Caux Round Table**

Two trends seem to be driving the future of our global community: one is an increase in the wealth of those already very well-to-do, and, second, a democracy deficit as revealed in the concentration of power in the leaders of China, Russia, and Turkey, the rise of populism in Europe and the United States, and the fraying of commitment to the Rule of Law in the South China Sea, the Ukraine, and Syria.

These trends are at variance with the Caux Round Table Principle for Responsible Business and Ethical government where public office is a public trust and not a personal, patrimonial, fief.

While CRT principles and statements have never said so in so many words, I would argue that an intended practical consequence of such principles is a strong and vibrant middle class as the foundation for economic and political justice.

A moral capitalism through enhancement of the well-being of stakeholders of enterprise sustains the broad base of employees and consumers to drive sustained prosperity and social justice. A moral capitalism does not intend to favor the wealthy over the others. Its ethical core is one of responsibility, that rewards justly should go to those who serve the good of all through their private efforts.

A moral capitalism takes seriously Adam Smith's off-hand observation that private interest should, through an "invisible hand", promote the public good.

But with informed opinion drawn to discussions of increasing inequality with respect to the share of global wealth and income going to the top 10% and 1% of people, we should not overlook the argument that middle classes are necessary for constitutional democracy and that the reverse is also true - constitutional democracies are necessary for the well-being of middle classes.

My proposition is that the foundation for a worthwhile democracy is a robust middle class. When the middle class is strong, democracy is robust. When the middle class does not flourish, similarly democracy is weak or dysfunctional.

To me the middle class and democracy are covariant: as one goes up so does the other; as one goes down so does the other.

This has been true since capitalism and constitutional democracy emerged together during the 17th and 18th centuries in England, Scotland, and Holland and their colonies in North America.

The resulting structure of society also prospered in Canada, Australia, and New Zealand. As middle classes grew across Europe in the 19th century with industrialization of those economies, European politics turned more and more democratic and constitutional, even in Russia prior to 1917.

And, since World War II, we have seen economic growth and the rise of middle classes in countries, once autocratic, which thereafter became more democratic. This was the case in Japan, Taiwan, South Korea, the Philippines, Indonesia, Thailand, Mexico, Chile, Brazil and Argentina. After the collapse of the Soviet Union, we saw the same mixture of middle classes emerging and political systems becoming more democratic.

Democracy in India I find to be a special case. The caste system in India and regional patron/client networks provide checks and balances in functional equivalence to middle class dispositions towards the Rule of Law.

Muslim societies, in general, have weaker middle classes and less robust democratic institutions and traditions, even though Qur'anic guidance for good governance requires consultation and balance in decision-making and good personal stewardship of power.

Similarly as economic development and modernization in sub-Saharan Africa has grown in recent decades, middle classes in that region are not yet strong. Tribalism in politics and authoritarian, rent-seeking rulers tend to be the norm in many countries. Middle classes in Ghana and Kenya provide some social power in support of the Rule of Law and fair elections. In South Africa, since the end of Apartheid, increases in wealth and income for Africans has not been notable, and autocratic tendencies are pronounced. The middle class composed of former Afrikaaners and Mixed Race families and some newly successful Africans has provided a peaceful opposition to rent-seeking politicians.

Where the more authoritarian and less tolerant identity politics of populism emerges in industrialized countries – the Brexit movement in the UK, the election of Donald Trump in the United States, Marine LePen in France, the AFD in Germany, Orban in Hungary, the new administration in Poland, and before with the rise of Fascism in both Italy and Germany during the 1920s and 1930s – we most often also see a middle class or significant segments of middle income citizens feeling marginalized or threatened by economic or social changes.

Today in the United States, our middle class has been in decline for decades and our democracy has become dysfunctional. The covariant relationship between the two holds but in the direction of decay, not progress.

We should therefore be very concerned that, if our democracy becomes even more dysfunctional than it is, our middle class will suffer even more.

Our Federal Congress cannot pass a proper budget, cannot agree on how best to provide health care, and cannot reach consensus on who should become new Americans.

If we keep on our current course, we face two outcomes for the Middle Class. One way will be increasing inequality of wealth and income with the top doing very well, the bottom surviving on sufferance in low-wage jobs with support from entitlements and with no savings or ownership of real estate. The other likely alternative well be an entitlement state with high taxes on the rich and subsidies for the poor but with little for those in the middle due to low growth and the elimination of middle class jobs through automation.

Recently the astute and very thoughtful Francis Fukuyama has written of political decay. He points out that political order can be both created and destroyed.

In his recent book he devoted a chapter to the ossification of the US Forest Service as an example of decay in the quality of government in the United States. His culprit is "patrimonialism" – a form of autocratic extraction of personal benefit from government office. People come to look on their government jobs as a patrimony – wealth to be used for personal advantage like an inherited trust fund or a feudal manor or the perks of the old Tammany Hall ward boss who, in the words of George Washington Plunkett, "done seen his opportunities and he took 'em".

And we have a new book by Levitsky and Ziblatt – **How Democracies Die**, not the cheeriest read.

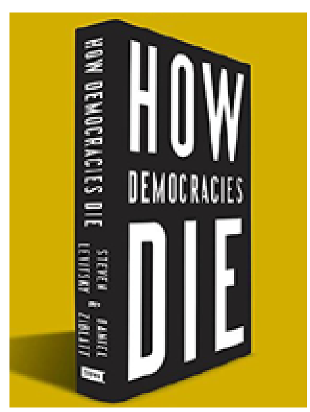
Please note that what Fukuyama points to as the cause of decay in government quality is the antithesis of middle class enterprise. As we have shifted towards a more patrimonial system of government away from middle class expectations of hard work and good service, the quality of our democracy has declined.

But let me present you with a more technical argument by presenting my understanding of what is a robust middle class and what is a worthy democracy.

I take it that the kind of middle class which supports a worthy democracy can be described largely in Marxist terms. It is that class, often called the bourgeoisie, which produced capitalism and is sustained by capitalism.

In Karl Marx's vision of human evolution, village peasant societies evolved into aristocracies – theocratic, feudal, or centralized imperialist; aristocracies then gave way to bourgeoise capitalism with private property, industrial scale production, and financial intermediation; and the bourgeoise then gave way to socialism with government direction of the means of production.

Let me suggest that the most relevant difference between the societies which preceded bourgeois capitalism and those which followed it such as under Lenin's Bolsheviks, Mao's Communist Party, or Pol Pot's Killing Fields, is the reliance of the ruling classes on what economists call rent- extraction.



Rent-extraction is the money and wealth you get from control of political power; it is an amount not determined by free market exchange and bargains between reasonably equal parties for a mutually acceptable price. Rent-extraction comes from the leverage provided by force, power, or structural position.

When Don Vito Corleone said, ***"Make him an offer he can't refuse"***, he was only putting into words the operational field manual used by systems of rent-extraction.

Landlords can charge rents because they hold title. Big Pharma companies charge rents because they hold the intellectual propriety right to the drug or medical device and because they provide goods to a market regulated by government rules on what is due to providers according to their different legal statuses. Google charges those who advertise on its pages what it wants because it has monopoly power behind it. Traders on Wall Street profit from speculation which is rent-extraction and not the creation of new wealth.

Pre-capitalist landlords and aristocrats lived off rents. Communist government lives off rents. Party members and government officials live off the rents collected from society by the government and distributed as salaries.

Tenured professors live off rents as well since they are not subject to market discipline.

But genuine bourgeoisie, a robust middle class, does not live off rents. Member of the class must risk their property in markets to earn a profit. That is why they were called "capitalists" – they owned capital which they brought to industry, commerce and finance.

Those who worked for them usually did not have capital. They worked for the wages they were offered and so were called "workers". They contributed "labor" power to the economy.

Those in agriculture who worked the land they owned and invested capital in livestock, seed, equipment were rural capitalists. Those who had neither land nor capital of their own remained peasants.

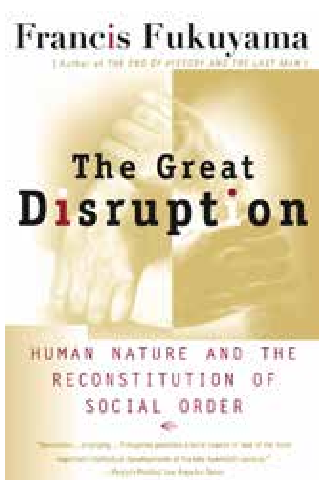
To measure the social power of a middle class we should look at stocks of capital and private property and the freedom of markets. The more markets are controlled by cartels or monopolies, or by government regulation, or by some mafia-like organization, the weaker the middle class.

The robustness of a middle class is not the nominal monetary value of their wealth but comes from how they get it.

So today in the United States, many of our most wealthy citizens are not really middle-class in Marxist terms. They are salaried bureaucrats working for large institutions, both public and private. They are what Marxists call "rentiers".

Two other measures of how robust a middle class can be are social capital and human capital.

You may be familiar with the idea of social capital from Robert Putnam's book **Bowling Alone**, Francis Fukuyama's very sound and insightful 1999 book **The Great Disruption**, and Charles Murray's




more recent book on the United States – **Coming Apart**. Social capital is the stock of civil society organizations, interpersonal networks, family wholesomeness, personal concern for the common good, trust in others and institutions, which nourish and sustain individual well-being and social justice. The disciplines of sociology, anthropology, and social-psychology tell us about the quality of social capital in a community.

We can consider social capital as the aggregate of those habitual, durable patterns of institutional conduct and belief, sustaining core values supporting those institutional arrangements year in and year out, and dominant personal dispositions aligned with those values and institutions.

As a rule, social capital is higher in societies with free markets, private property, constitutional governments, a free press, and open structures of culture and educational achievement. Such societies rely more on spontaneous social dynamics for their order and progress than on police surveillance and administrative regulations.

Dysfunctional societies with high crime, pervasive corruption and favoritism in and around their governance, family breakdown, tribal and sectarian "isms", and generic lack of trust tend to have low social capital. Many failed states such as Iraq, Afghanistan, Syria, Somalia - have low stocks of social capital.

Self-referential, narcissistic values, conceits, and behaviors decompose social capital on the one hand and prevent it from accumulating on the other. Such sociopathology quite effectively undermines social cohesion and mutuality. People less and less are willing to rely on others to be fair, to do their part, to be responsible.

Middle class life, on the other hand, demands reciprocity, work and personal responsibility. Neither aristocratic *(now celebrity lifestyles)* nor peasant vocations make a similar demand on the moral sense of individuals. Each indulges egoism and self-promotion at the expense of others. The middle class dynamic furnishing goods and services to markets for a price tends to be non-zero or win/win while both rent-seeking and peasant modes of production are zero-sum and win/lose.

What de Tocqueville called the "habits of the heart" which sustained democracy in the young American republic are hard to come by when narcissism and self-referential behaviors are the accepted social norms.

We see here at the granular level of society and culture the force of character which joins constitutional democracy to middle class economics.

Next, human capital seems less determinative of middle class robustness as talented people can be present in dictatorships and aristocracies. But it is hard to sustain a middle class without good education and skillful artisans and technicians. The World Economic Forum has a website which ranks countries for the quality of their human capital.

In the United States, trends which have been undermining our stocks of social and human capital are a rise in ADHD and opioid addictions, along with divorces and people living alone, flat line educational achievement even with rising expenditures on educational institutions, and work force drop-outs.

There are recent commentaries on the dangers of prolonged social media exposure to quality social and human capital. The development of "bubble cultures" which ignore one another are indicators of declining social capital in the United States.

## What is a Worthy Democracy?

Next, what is a worthy democracy?

The Marxist vision is that democracy is the form of state governance appropriate for bourgeoise capitalism which has the middle class as its social and cultural expression.

In pre-capitalist, landlord, aristocratic or theocratic, societies, democracy is hard to find. There were a few more democratic city states – Athens, the Roman Republic, Venice, Swiss Cantons. Though I do believe from living in some of them that many peasant, tribal, and warrior, village communities with their charismatic chieftains and traditional patron-client elders are quite respectful of norms and customs and so embrace responsible use of public power. In these communities, bad leaders lose their followers, become socially isolated, and fall from political grace.

In post-capitalist societies as we have known them, there is no democracy. The alignment of the masses with the vanguard party in total control of the state is created and managed by the Party according to its vision of the good for all. This is the case today in China, made even more explicit with the new proposed changes to its governing instructions permitting Xi Jinping to rule as the supreme leader for life should he want to do so.

But in full-fledged capitalist settings, government is generally responsive to social forces.

Middle classes generally are keen to use communal and political participation to advance or defend their interests and their values. They bring a transactional, workmanlike, marketplace sensibility to governance, open to deal making, seeking win/win transactions, and accepting interim provisional bargains. They are less ideological than either rent-extracting elites or self-appointed tribunes relentlessly standing up for the dispossessed.

What I consider to be a worthy democracy was described by Aristotle as a system of checks and balances. When the people *(the demos)* ruled en masse, Aristotle considered this a loss of balance – mob-ocracy, temper-tossed, emotional, fickle, and violent.

Cicero followed with a recommendation for a mixed system with some power for the wealthy, the patricians, and some for ordinary people, the plebs. The mechanism used to balance out power and expectations was the law and procedure.

But both Aristotle and Cicero, a Stoic, advocated an additional mechanism as well – personal character or virtue. Aristotle believed that virtue was a necessary prerequisite as it created a common temper or mores for keeping to the golden mean and avoiding extremes.

Aristotle was not alone.

Buddha in his first sermon spoke of the dharma as sustainability, holding us up so that we can go forward with life no matter what happens. The wheel of the dharma was a metaphor for rolling along a course, not slip-sliding away into harms and self-destructions.

The **Tao Te Jing** warns against intolerant imposition of our will – to ***wu wei*** and so to follow the Tao.

Mencius demanded that those with office live up to their duties. Their power derived from their work responsibilities and was not a personal prerogative to be selfishly abused. In this he followed Confucius.

Qur'an speaks to us of following the balance – the **Mizan** – and exposes corruption and abuse of power as infidelity to God's good intentions for humankind and his creation.

A worthy democracy was well described by James Madison in the 10th Federalist Paper of 1789. There he called it a republic for its ability to check the excesses of faction through checks and balances.

Federalist 51 provided more instruction on how to set up a sustainable structure of checks and balances.

Important was that the "reason" and not the "passions" of the people control and regulate the government. A robust middle class provides a reasonable temper for the people so that reason can prevail over passion.

The Framers of the Constitution relied on the people having sufficient character, or virtue, to let their reason prevail over their momentary disappointments, greed, fears, and other passions. Federalist 55 says: ***"As there is a degree of depravity in mankind which requires a certain degree of circumspection and distrust, so there are other qualities in human nature which justify a certain portion of esteem and confidence."***

Again character is required. Heraclitus taught that "character is fate" – ethics are god to humankind.

To borrow a metaphor from Emily Dickinson:

***The heart is the Capital of the Mind –***
***The Mind is a single state –***
***The heart and the mind together make***
***A single continent –***
***One – is the Population Numerous enough –***
***This ecstatic Nation Seek – it is yourself.***

I like the way the American singer Bonnie Raitt puts it:

***You come around cryin' that you just can't win***
***You step out on the track in the pourin' rain***
***And when you get run over, well, you blame the train***
***Everywhere you look they're tryin' to do you in***
***It's always the same, baby***
***Someone else is to blame, baby***
***You still ain't got a clue that way it all rolls down***
***'Cause what you're dishing out is comeing back around***

***Don't cha think that you had enough?***
***Ain't it time to get a different view?***
***You can't just wait around for what you want***
***It's all about the way you choose***
***Ain't nobody else that can make things right***
***Baby, it's down to you***

On the importance of individuals empowered by both personal wealth and constitutional freedoms, I like the whimsical poem of Emily Dickinson:

***To make a prairie it takes a clover and one bee,***
***One clover, and a bee,***
***And reverie.***
***The reverie alone will do,***
***If bees are few.***

The intellectual disciplines for the study of character are social psychology and cultural anthropology. Personality profiles such as the Myers-Briggs typology, the DISC assessment, the Five Factor Model of personality traits, and the Gallop Strength Finder for personal skills, Hofstede's national values charts, identity formation as proposed by Erik Erikson, the positive psychology of Martin Seligman, the inner-directed and other-directed personality types of my mentor David Reisman, and more, give us understanding of the various social and psychological vectors which shape human destinies.

As Martin Luther King told us in 1963, his dream was that ***"my four little children will one day live in a nation where they will not be judged by the color of their skin but by the content of their character".***

Now the middle class is best conditioned to value and sustain democracy. It has as its vocation the nourishing of pluralism and decentralization of power.

People must organize and agree in order for government to work. It is bottom up and top down, like a free market. It is flexible, egalitarian, tolerant, open to innovation, demanding of good character and wisdom.

In their book **Fixing Failed States**, Ashraf Ghani *(now President of Afghanistan)* and Clare Lockhart prescribe creating a compact between the people and the government, not chaining the government to foreign donors and mentors, no matter how well intentioned. Spending authority should be decentralized and decisions taken from the bottom up. In short, they look to middle class, self-reliant, dynamics to create an effective state.

Middle Class individuals are self-reliant, accept responsibility, take risks, don't demand too much from others, are capable of trusting, but also have expectations of shaping their futures

## Creating a Compact Between the People and the Government

which we might consider as a call to "work" as being quite important to a life well lived.

Economic independence permits more secure social status; with such a status, psychological fortitude sets in; such an individual is disposed to virtue so middle-class individuals are most likely to value and to acquire it as a personal psycho-social possession.

People with virtue are balanced, comfortable with navigation among multi-variant social, political and economic forces, finding a place for themselves befitting their sense of self-worth.

The Japanese have a concept of ***Kyosei*** – symbiosis or living dependently on others as part of a complex ecosystem and knowing that others depend on us. Middle classes are prone to ***Kyosei*** modalities in life.

I have argued that middle classes and democracy are co-variants. A middle class is the product of both economic structure and cultural values. One can't have the culture, prejudices and values of an aristocrat or a peasant and be happy in a middle-class status.

Similarly, democracy is the product of both political structure and cultural values. One can't have the culture, prejudices, and values of an aristocrat, an ideologue, or a peasant and be happy with the messy processes, compromises and delays that come with constitutional checks and balances.

Values therefore become the necessary foundation for both bourgeoise free market capitalism and constitutional democracy. With regard to capitalism, let us never forget that Adam Smith's first book was on the moral sentiments – the values a good person needs to have. And those values enhanced decency in both capitalism and in politics. Smith's moral sentiments promoted the synchronicity of capitalism and democracy. Should we lose those values, we risk losing both our middle class and our democracy.

Marcus Tullius Cicero lived during the decades when the constitutional democracy, which was the Roman Republic, collapsed. He died at the orders of Mark Antony as a military autocracy assumed control of the state. In 59 BC, Cicero wrote a letter to his friend Atticus, then in Greece on business, pointing to the cause of collapse: ***"while our ability to make critical judgments is completely free, our virtue is in chains"*** – ***nos virtutem adligata est***. In other words, those responsible for defending the constitutional order had lost their moral courage and the concomitant resolve to act for the common good.

And, from a structural analysis, the economy of Rome had morphed from that of middle-class urban and rural entrepreneurship to the rent-extraction made possible by the conquest of territories in Sicily, Spain, Greece, Gaul, and Egypt.

Reflecting on his times in 1968, Irving Kristol presciently wrote: ***"Who can deny that, in the United States today, as never before in its history, there is a vast unease about the prospects of the republic?"*** … None of these problems, taken by itself, seems insoluble. But taken together, they constitute a condition and are creating habits of mind that threaten the civic-bourgeois culture bequeathed to us by Western civilization.

In his most wise ***Farewell Address***, George Washington advised that:

> ***"Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensable supports. In vain would that man claim the tribute of patriotism, who should labor to subvert these great pillars of human happiness, these firmest props of the duties of men and citizens. The mere politician, equally with the pious man, ought to respect and to cherish them. A volume could not trace all their connections with private and public felicity. … And let us with caution indulge the supposition that morality can be maintained without religion. Whatever may be conceded to the influence of refined education on minds of peculiar structure, reason and experience both forbid us to expect that national morality can prevail in exclusion of religious principle.***
>
> ***It is substantially true that virtue or morality is a necessary spring of popular government. The rule, indeed, extends with more or less force to every species of free government. Who that is a sincere friend to it can look with indifference upon attempts to shake the foundation of the fabric?"***

What is lost when a middle class declines?

In the United States today, first, we are losing civic virtue.

Second, we are losing faith in one another.

Third, we are losing the ability to work together.

On the other hand, what are we gaining?

A culture biased in favor of money, celebrity, and the perks of power where winning is the only thing.

More centralization of power in hierarchies — corporate and governmental — so that our legal culture is more all-knowing rule by law and less use of the Rule of Law which values decentralization of power and individual autonomy.

More rent-seeking.

A politics more bitter and more polarized leading to gridlock and intolerance in government.

These losses and these so-called "gains" are what the Caux Round Table principles for business, government, civil society, and ownership of wealth seek to avoid.

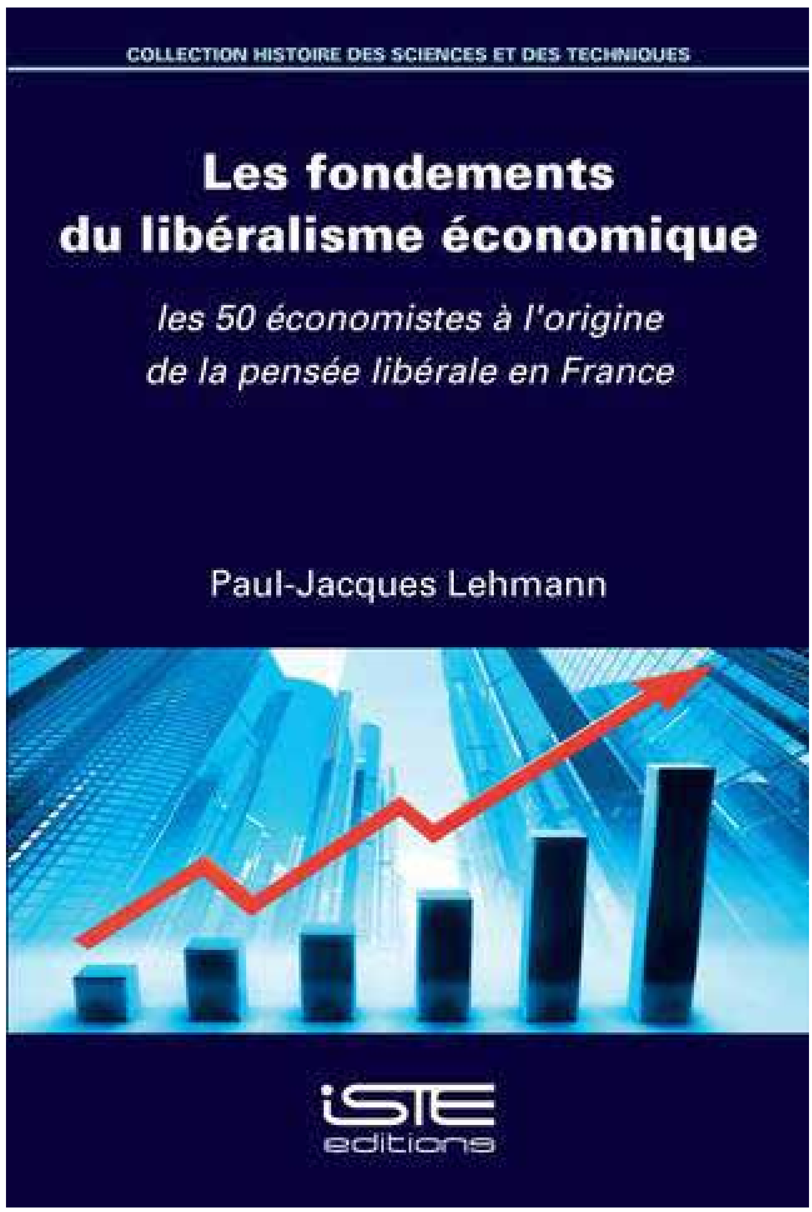
***Stephen B. Young***
*Global Executive Director*
***Caux Round Table***

# REVENIR AUX SOURCES
## DE LA LIBERTÉ ÉCONOMIQUE

Le 22 mars dernier j'ai été conviée à écouter les réflexions de Paul-Jacques Lehmann, Professeur émérite à l'Université de Rouen et auteur de **Les fondements du libéralisme économique** (ISTE, 2017), lors d'une conférence organisée par l'Institut Libéral dans le cadre privilégié de la Société de Lecture, qui accueille régulièrement écrivains, philosophes et historiens sur des thèmes divers d'actualité.

«***L'apprentissage de la liberté économique est une nécessité quasi permanente***» ...dit en introduction Pierre Bessard, Directeur de l'Institut Libéral, dans tout pays et également en Suisse, pays libéral, surtout dans la période actuelle où divers facteurs, tels que *'Etat-providence', 'charge fiscale exacerbée', 'surréglementation des marchés' et 'expansion monétaire à outrance',* viennent diminuer nos libertés économiques, fruit d'un combat intellectuel de longue haleine sur plusieurs siècles auquel les penseurs francophones ont largement contribué.

Le Prof. Paul-Jacques Lehmann s'est penché sur les origines francophones du libéralisme économique du XVIIIe et, surtout, du XIXe siècles *(allant de Turgot/1727 à Colson/1939)*, en étudiant notamment les réflexions de 50 économistes libéraux francophones, souvent méconnus. On retrouve, parmi les 50 libéraux étudiés, 43 français et 7 étrangers, dont un allemand, deux suisses, un italien,



un belge, un russe et un polonais *(respectivement Block, Cherbuliez, Constant, de Molinari, Rossi, Wolkoff, Wolowski)*, ayant vécu à des périodes différentes pendant lesquelles la pensée économique, politique et sociale a sensiblement évolué.

On retrouve, néanmoins, chez l'ensemble de ces libéraux les mêmes questions essentielles et notamment la définition de l'économie politique, devenue une science d'observation à part entière, capable d'en dégager des lois *(le produit de l'histoire, le fruit naturel de l'humanité dérivant de l'observation et en tout temps vérifiable)*, un certain nombre d'équilibres *(tel que l'offre et la demande)*, et d'autres. Les idées de ces libéraux sont l'aspect le plus important à retenir dans cette étude s'étendant sur presque deux siècles. Les libéraux s'attaquent en particulier aux dysfonctionnements du mercantilisme, de la physiocratie et du socialisme.

Au travers des idées de ces libéraux, de grandes libertés individuelles émergent, comme le fondement du libéralisme. En premier, la ***liberté du travail***, important créateur de richesse, premier 'facteur de production' permettant à toute civilisation de progresser, avec pour corollaire la liberté de sa rémunération, gages, salaires ou honoraires; en second, la ***liberté du capital*** *(permettant création économique et innovation)*; enfin en troisième la ***liberté de fixation du prix***, donc du taux d'intérêt.

Il est intéressant d'observer que ces libéraux ne sont pas tous d'accord sur la ***liberté sur la monnaie*** *(et banques centrales)*, qui souligne la fin du 'mercantilisme' *(monométallisme, bimétallisme, etc.)*. La monnaie en circulation ne représente qu'une infime partie de la richesse d'un pays, alors que la vraie richesse est la production *(mesurée par le PIB)*. La notion de liberté accordée aux banques d'en créer autant que nécessaire est notable, reléguant l'État à ses missions strictement régaliennes.

La ***liberté commerciale***, dont l'expression la plus importante est la concurrence, est essentielle. La liberté des échanges, qui bouleverse l'organisation et la structure de l'économie dans l'ère de la révolution industrielle, tant sur le plan national qu'international, est le moteur par lequel un entrepreneur a toujours intérêt à réduire ses coûts de production et à s'efforcer de rechercher des innovations.

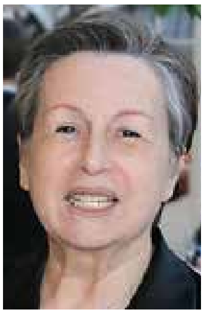
En corollaire de la liberté vient la responsabilité de l'individu qui donne naissance à la propriété et le droit de propriété, fruit du travail *(sur le plan individuel)*, qu'il faut absolument respecter et protéger. Il n'est donc pas étonnant que le Prof. Paul-Jacques Lehmann souligne ce point si important de la pensée libérale, la condamnation de l'ingérence de l'État *(qui ne crée pas de richesse)*, incapable de respecter et faire respecter les libertés.

Pour les libéraux, aucun système fiscal n'est vraiment équilibré. Ils acceptent l'impôt unique sur le capital et le droit de douane uniquement s'il est basé sur un objectif fiscal et non pas économique, et surtout ils prônent le respect de l'équilibre budgétaire annuel, ce que nos 'démocratiee' avancées ont beaucoup de peine à satisfaire.

La condamnation du socialisme est générale et sans réserve! Le socialisme ne connaît pas la science économique, se base uniquement sur la dialectique et crée des sociétés imaginaires.

En conclusion, il mentionne que, malgré l'environnement économique actuel et les nouvelles méthodes développées par la science économique 'moderne', il conviendrait de raviver l'élan libéral dans nos sociétés en prêtant plus d'attention à la pensée des 50 auteurs libéraux *(cités dans son livre)* dont l'influence est encore importante de nos jours.

Revenir aux sources de la pensée libérale est essentiel, selon le Prof. Paul-Jacques Lehmann, pour trouver des solutions à envisager pour les problèmes d'aujourd'hui.



***Cosima F. Barone***
***Chairman, FINARC S.A.***
*Member of CIFA's Executive Committee*

*Read on: http://www.libinst.ch/publications/IL-Lehmann-Liberalisme.pdf*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# LA FISCALITÉ SUISSE sous la pression internationale

**Prof. Xavier OBERSON**

**Professeur à l'Université de Genève**
**Associé - OBERSON ABELS SA, Genève**

OBERSON ABELS

speaking at a GSCGI's monthly conference...

GSCGI PREMIUM INVICTAE FIDELITATIS

CIFA INITIAL CONTRIBUTOR

Le Groupement Suisse des Conseils en Gestion Indépendants (GSCGI), pour sa 2ème réunion mensuelle de l'année (2018) a invité le Prof. XAVIER OBERSON, Professeur à l'Université de Genève et associé—OBERSON ABELS SA à Genève—pour nous livrer son analyse de la forte pression fiscale internationale subie par la Suisse.

Sa présentation est assortie de recommandations portant sur des impératifs sur lesquels il conviendrait de se pencher de toute urgence.

D'emblée, le Prof. Xavier Oberson affirme que, dans le domaine de la fiscalité, le mouvement tend à s'accélérer d'une façon bien préoccupante et, de ce fait, "il est grand temps de réagir" mais avec une approche différente que par le passé.

Il énumère **six grandes tendances** internationales qui, d'une manière ou d'une autre, exercent une forte pression sur la Suisse.

**La première** est la transparence internationale et l'échange de renseignements (2008-2009) et leurs conséquences.

**La seconde**, parallèle à la première, concerne la lutte contre la fraude fiscale ... on assiste à des aggravations des pratiques internationales qu'on peut observer à divers niveaux comme par exemple le procès Cahuzac en cours actuellement, les banquiers ayant fait l'objet d'amendes de la part du Département de Justice (DOJ) américain *(à suivre: les conseillers fiscaux—fiduciaires et avocats—sont déjà dans le viseur de l'Angleterre)*.

**La troisième** se définit par l'acronyme BEPS *(Base Erosion and Proft Shifting)*, le projet développé en 2013 par l'OCDE dans le cadre du G20, et qui vise en particulier les entreprises multinationales adeptes de planification fiscale agressive. Il s'agit d'une vieille idée que l'OCDE a suivie depuis longtemps, soit la lutte contre la concurrence fiscale dommageable. Dans ce paquet de mesures, par exemple l'Angleterre exige l'annonce préalable de tout programme de planification fiscale au prix de s'exposer à des conséquences sévères, y compris pénales. Il s'agit bel et bien de l'inversion du "tax ruling" du fait que l'accord de la part de l'autorité fiscale du pays précède toute mesure de planification fiscale prise par les entreprises multinationales.

Parallèlement à ces trois tendances, a émergé subitement une très grande concurrence fiscale touchant tant les entreprises que les personnes physiques. Un exemple marquant de cette quatrième tendance est la réforme fiscale adoptée par les États-Unis, qui encourage sensiblement l'implantation d'entreprises aux USA, le transfert de cash et des réserves des entreprises aux USA et un taux d'imposition de 21% contre 35% appliqué auparavant.

**La cinquième** tendance concerne les personnes physiques, tel le système des residents "non-dom" en Angleterre, suivi par l'Italie qui a pratiquement copié le modèle anglais pour les résidents étrangers, sans oublier le système du Portugal et d'Îles un peu plus exotiques comme Chypre et Malte, qui ont des systèmes similaires. A parité d'avantages, "il est bien plus agréable de vivre à Rome avec vue sur le Capitole, que dans les îles Turks and Caicos!" ... dit-il avec une pointe d'ironie.

**La sixième** tendance, beaucoup plus récente, concerne l'économie digitale et l'intelligence artificielle. La fiscalité des entreprises digitales, encore dans un état confus et fragmenté, est également mentionnée dans le projet BEPS. Certes s'il s'agit d'une mesure urgente sur le plan international, elle l'est moins pour la Suisse en ce moment. Dans cet esprit global de taxation des "GAFAs" et des robots, l'Inde a introduit une 'equalization tax' de 6% sur les achats faits en ligne dont la compatibilité avec les Conventions de double-imposition est en doute. L'Italie a également introduit une taxe dans ce même esprit et dans le but de frapper ces grandes entreprises américaines qui ne payent pas d'impôts proportionnels à leur capacité contributive *(alors que nous, les consommateurs, leur donnons volontairement et gratuitement leur richesse et valeur extraordinaire)* et qui, en outre, inquiètent de plus en plus par leur importance et leur monopole sur le plan global.

La Suisse a été très bon élève au regard de ces six tendances internationales.

Sur **le premier point**, la Suisse a fait de grands efforts en matière de transparence internationale et d'échange automatique de renseignements *(les premiers échanges de la Suisse vers l'UE et vice-versa se feront dès septembre prochain)*. D'ailleurs, même le Forum mondial de l'OCDE reconnaît les efforts importants de la Suisse. De ce fait, il est surprenant que **(a)** l' 'ONG' Tax Justice Network vienne récemment de classer la Suisse en première position de l'opacité financière, devant les États-Unis et les Îles Caïman; **et (b)** l'Union européenne place notre pays sur une liste grise.

Sur **le deuxième point** de la lutte contre la fraude fiscale, la Suisse a adopté la loi sur le blanchiment fiscal en 2016; les premiers cas de droit pénal devraient arriver à partir de cette année *(usage de faux ... à partir de 2016)*. Nous avons donc été de bons élèves aussi en matière de blanchiment de fraude fiscale et la Suisse a fait preuve d'une grande coopération et respect de la réglementation internationale. Le GAFI, lors de son dernier 'peer review', auquel le Prof. Xavier Oberson a participé personnellement, a jugé la Suisse largement conforme nonobstant le caractère assez restrictif de la définition du blanchiment fiscal en droit suisse, à l'exception de la branche des avocats d'affaires, à savoir si le secret professionnel des avocats pourrait sensiblement camoufler des opérations de type blanchiment.

> "La Suisse a fait preuve d'une grande coopération et respect de la réglementation internationale."

**Le troisième point** — BEPS: concurrence fiscale dommageable — est une véritable révolution et une vision fort contrastée. La Suisse a adopté, comme d'habitude, la plupart de la réglementation BEPS. Mais, ce faisant la Suisse est en train de ratifier un instrument multilatéral, dite 'MLI' *(Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS)*, une sorte de super-convention multilatérale ... dit le Prof. Xavier Oberson, qui pratiquement se substituera à environ 3000 conventions de double-imposition. Il s'agit d'une véritable révolution, avec une multitude de subtilités et d'options, qui va se traduire par un énorme 'imbroglio' juridique ... 'délice des avocats'. La Suisse a signé la 'MLI', pas encore ratifiée, mais nul doute qu'elle le sera. Il reste néanmoins l'abrogation des statuts spéciaux 'holdings' et 'sociétés auxiliaires' *(exemple de concurrence fiscale dommageable)* que la Suisse s'est engagée internationalement à supprimer.

La Suisse a été très bon élève en matière de: (1) échange automatique, (2) blanchiment d'argent, et (3) BEPS.

Que reste-t-il encore à faire? La Suisse doit s'atteler de toute urgence au projet fiscal 17 (PF17), qui correspond, d'ailleurs, dans les grandes lignes au projet fiscal genevois et qui consiste dans la suppression des statuts cantonaux spéciaux octroyés à certaines entreprises. Malgré son engagement, la Suisse ne les avait pas encore abrogés suite au vote démocratique et populaire sur ces questions, en réalité le seul État du continent européen à avoir un débat démocratique sur la fiscalité. L'Europe nous aurait-elle donc punis, en nous plaçant dans la liste grise, pour notre processus démocratique? Le PF17 doit être approuvé de toute urgence en vue de répondre efficacement aux engagements internationaux de la Suisse.

La Suisse a été très bon élève, d'ailleurs sans jamais être ni remerciée ni félicitée pour l'œuvre accomplie à une vitesse effrénée. Au contraire, être relégué au rang de pays le plus opaque financièrement par Tax Justice Network et en liste grise par l'UE ne correspond vraiment pas aux efforts considérables dont notre pays a fait preuve ces dernières années en adoptant les standards internationaux (OCDE et UE) au pas de charge. La réalité est que dans les relations entre États on n'est pas entre amis. Sur le plan politique et fiscal, il y a indéniablement concurrence entre États, certaines alliances se font et se défont; la Suisse doit donc cesser d'être naïve.

Les États-Unis, par exemple, ont pris totalement à contre-pied l'OCDE. Ils ont adopté une réglementation américaine, mais à portée internationale, sans même prendre en considération les accords de double imposition existants. Il faut noter que les USA visent, au plus profond de la réflexion fiscale à la base de sa conception *(même s'ils n'ont pas encore été jusqu'au bout)*, à faire basculer petit à petit la taxation à l'endroit où se trouve le consommateur. La taxation des entreprises basculerait alors à un système fiscal dit basé sur le "destination principle", à savoir une taxation basée sur la logique du système TVA mais applicable aux entreprises, et ce dans le but de favoriser les entreprises américaines et d'encourager essentiellement les exportations. Ce serait un problème pour la Suisse, pays comptant peu de consommateurs mais avec une très forte capacité de production mais dont la base imposable serait déplacée là où se trouvent les consommateurs ... dans le cas où le système américain se répandrait sur la planète. De là l'urgence d'adopter le PF17.

En dernier, le Prof. Xavier Oberson mentionne la taxe sur la fortune, qui fait fuir des entrepreneurs (en Angleterre, en Italie et même en France). En effet, en plus des 50% auxquels sont taxés les bénéfices, les entrepreneurs indépendants voient leurs outils de travail *(qui ne représentent pas de la fortune)* taxés en sus. La Suisse devrait revoir l'impôt sur la fortune sans tarder afin de stopper l'exode des personnes productives vers des systèmes fiscaux plus attractifs.

En conclusion, alors que la Suisse a fait preuve de bonne volonté en s'alignant, en toute hâte, aux standards fiscaux internationaux, les autres pays se sont affairés à concevoir des systèmes de concurrence fiscale internationale de grande envergure.

La Suisse doit, par conséquent, s'occuper impérativement de sa position concurrentielle face aux autres États qui font preuve de concurrence fiscale effrénée.

Cette deuxième et excellente conférence du Groupement se termine avec de nombreuses questions de l'assistance, auxquelles le Prof. Xavier Oberson a eu l'amabilité de répondre avec une extrême précision et disponibilité, ce dont nous le remercions.

***Prof. Xavier OBERSON***
*Associé, OBERSON ABELS SA, Genève*
*www.obersonabels.com*
*Associé, Oberson Avocats, Genève (1992-2016)*

*XAVIER OBERSON est Professeur de droit fiscal suisse et international à l'Université de Genève depuis 1994 et Directeur du LLM Tax de l'Université de Genève. Me Xavier Oberson a été admis au Barreau Genevois en 1987. Il participe étroitement à diverses associations et commissions d'experts en matière fiscale internationale. En outre, depuis 2010, Me Xavier Oberson est Membre de la Commission fédérale d'harmonisation des impôts directs de la Confédération, des cantons et des communes (CHID). Les diverses étapes de sa riche formation incluent: Harvard Law School (ITP/LL.M., 1992); Université de Genève (Licence en droit, 1984; DES, 1988; Doctorat en droit, 1991); et Brevet d'avocat, Genève (1987). Musicien et passioné de jazz, Me Xavier Oberson est Président de la Montreux Jazz Artists Foundation et Membre du comité de fondation du Montreux Jazz Festival.*

# More Government Spending = Weaker Economic Performance

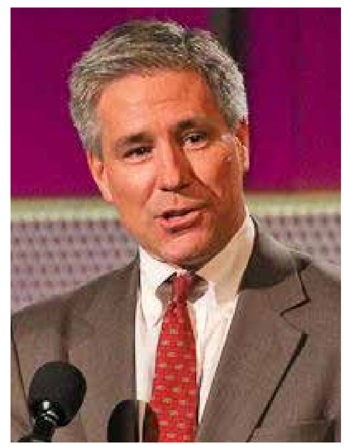
I'm in Brussels *(April 2018)*, where I'm participating in an "Economic Freedom Summit" on the unfriendly turf of the European Parliament.

My role was to chair a panel earlier today about whether Venezuela can recover from socialism. I obviously have an opinion on that topic, but I want to write today about some information that was shared on the panel about transition economies.

Andrei Illarionov, a former adviser to Vladimir Putin, gave a talk about economic reform in Russia. I also have an opinion on that topic, but that's also not today's issue.

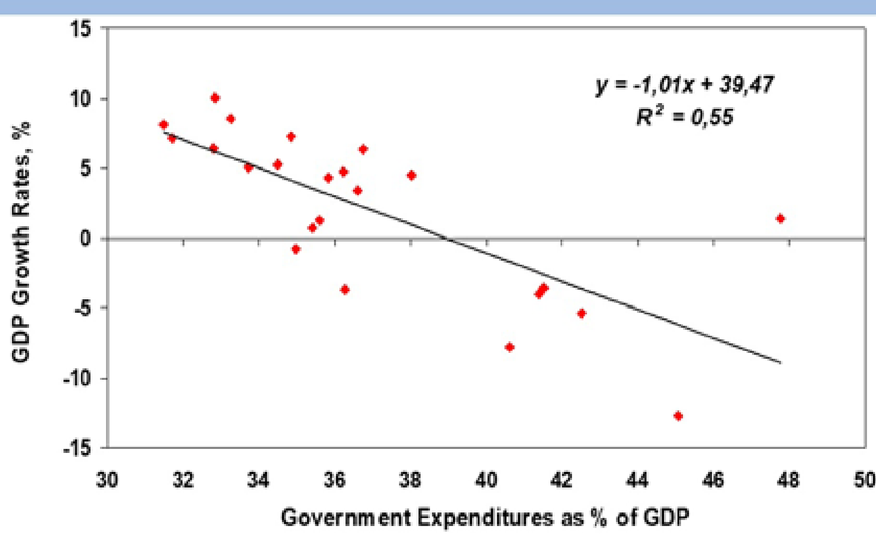
Instead, I want to share some of his charts on the broader topic of government spending and economic growth.

As you might expect, he showed the negative correlation between the size of government and economic performance in Russia.



**Daniel J. Mitchell**
**Chairman of the Center for Freedom and Prosperity.**
**Member of CIFA's Advisory Board**

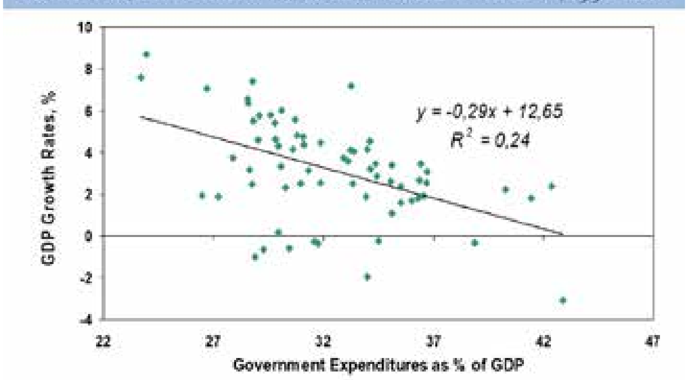
Size of Government and Economic Growth in Russia, 1994–2016




*DANIEL J. MITCHELL is Chairman of the Center for Freedom and Prosperity. Formerly, Dan was a Senior Fellow at the Cato Institute in Washington, D.C., where he specialized in fiscal policy, particularly tax reform, international tax competition, and the economic burden of government spending. He also serves on the editorial board of the Cayman Financial Review. Dan's work has been published in the Wall Street Journal, New York Times, Villanova Law Review, Public Choice, Emory Law Journal, Forbes, USA Today, Offshore Investment, Playboy, and Investor's Business Daily. He has appeared on all the major TV networks, and has given speeches in almost 40 states and more than 30 countries. Dan earned a Ph.D. in economics from George Mason University.*

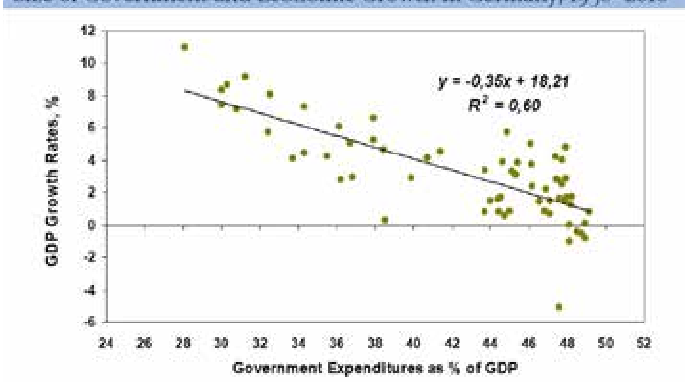
He also had numbers for the United States, though for a much longer period of time.

Size of Government and Economic Growth in the USA, 1950–2016



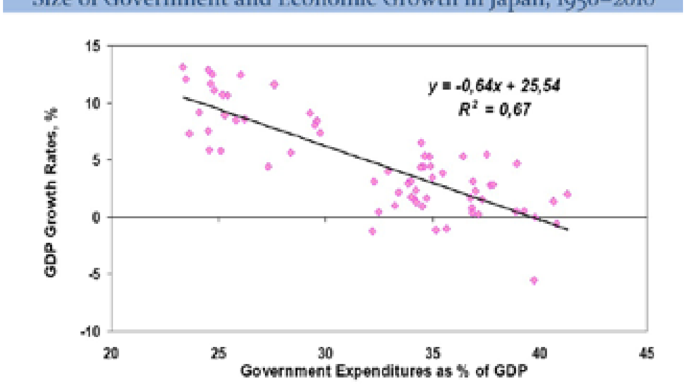

He also had the data for Germany.

Size of Government and Economic Growth in Germany, 1950–2016



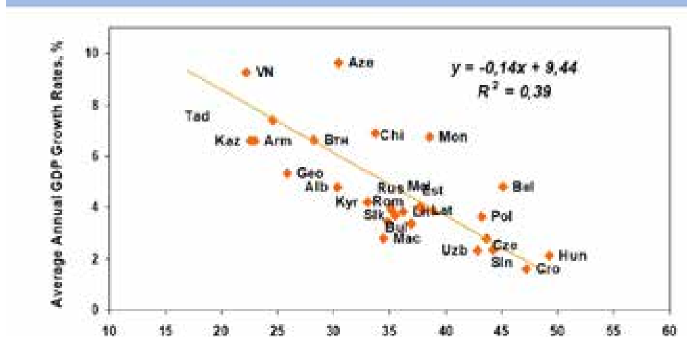

And also the numbers for Japan.

Size of Government and Economic Growth in Japan, 1950–2016



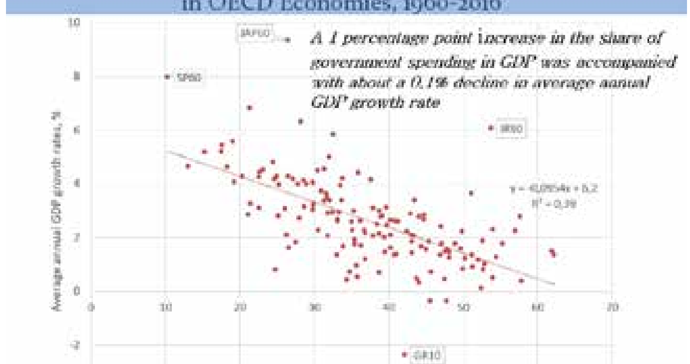

Since the panel's main focus was countries making the transition from communism, Andrei also looked at the relationship between government spending and growth rates in those nations *(chart top of page on right)*.

Size of Government and Economic Growth in Transition Economies, 1999–2016 (27 countries)




Last but not least, here are his calculations based on 56 years of data in developed countries, on the impact of government spending on economic growth.

Size of Government and Economic Growth in OECD Economies, 1960–2016




This is powerful data, even when you factor in the caveats Andrei mentioned in the discussion.

For all intents and purposes, the lines in Andrei's various charts are measures of the downward sloping portion of the Rahn Cure. I explain in this video.

I've shared research on government spending and economic performance on any occasions, including some findings from a very good book published by London's Institute for Economic Affairs.

And it's worth noting that even the left-leaning OECD has produced findings very similar to Andrei's data.

- The OECD admitted in one study that "a reduction in the size of the government could increase long-term GDP by about 10%, with much larger effects in some countries."
- The OECD admitted in another study that "a cut in the tax-to-GDP ratio by 10 percentage points of GDP *(accompanied by a deficit-neutral cut in transfers)* may increase annual growth by ½ to 1 percentage points."
- The OECD admitted in a different study that "an increase of about one percentage point in the tax pressure *(or, equivalently one half of a percentage point in government consumption, taken as a proxy for government size)*...could be associated with a direct reduction of about 0.3 per cent in output per capita. If the investment effect is taken into account, the overall reduction would be about 0.6-0.7 per cent."

And the IMF also has a statist orientation, but it also has confessed that larger governments hinder growth, writing that ***"A tax cut for the middle-class, financed from a lump-sum reduction in government spending, ...raises the steady state GDP by just under 1 percent after 5 years... in the simple case where the tax cuts are paid for by lump sum cuts in government spending, the personal income tax multiplier is around 3."***

In other words, the research clearly shows that shrinking the burden of government spending is a great recipe to promote greater prosperity. Andrei's data is simply another layer of evidence.

***Daniel J. MITCHELL***
*Member of CIFA 's Advisory Board*

# Tax and Development:
## What the U.N. Gets Wrong and What the U.N. Doesn't Get Right

I've been at the United Nations this week for both the 14th Session of the Committee of Experts on International Cooperation in Tax Matters, as well as the Special Meeting of ECOSOC on International Cooperation in Tax Matters.

As you might suspect, it would be an understatement to say this puts me in the belly of the beast *(for the second time!)*. Sort of a modern-day version of Daniel in the Lion's Den.

These meetings are comprised of tax collectors from various nations, along with U.N. officials who – like their tax-free counterparts at other international bureaucracies – don't have to comply with the tax laws of those countries.

In other words, there's nobody on the side of taxpayers and the private sector *(I'm merely an observer representing "civil society")*.

I could share with you the details of the discussion, but 99 percent of the discussion was boring and arcane. So instead I'll touch on two big-picture observations.

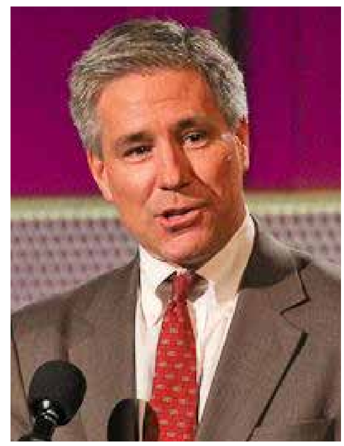
**What the United Nations gets wrong: The bureaucracy assumes that higher taxes are a recipe for economic growth and development.**

I'm not joking. I wrote last year about how many of the international bureaucracies are blindly asserting that higher taxes


are pro-growth because government supposedly will productively "invest" any additional revenue. And this reflexive agitation for higher fiscal burdens has been very prevalent this week in New York City.

It's unclear whether participants actually believe their own rhetoric.

I've shared with some of the folks the empirical data showing the western world became rich in the 1800s when fiscal burdens were very modest. But I'm not expecting any miraculous breakthroughs in economic understanding.



**Daniel J. Mitchell**
**Chairman of the Center for Freedom and Prosperity.**
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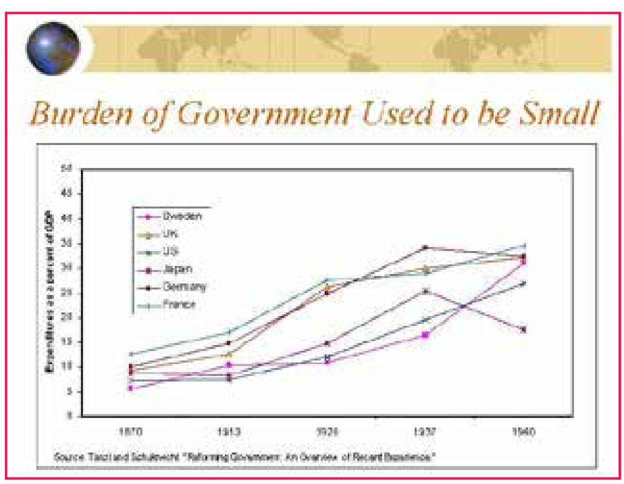


**What the United Nations fails to get right: The bureaucracy does not appreciate that low rates are the best way of boosting tax compliance.**

Most of the discussions focused on how tax laws, tax treaties, and tax agreements can and should be altered to extract more money from the business community.

Participants occasionally groused about tax evasion, but the real focus was on ways to curtail tax avoidance. This is noteworthy because it confirms my point that the anti-tax competition work of international bureaucracies is guided by a desire to collect more revenue rather than to improve enforcement of existing law.

But I raise this issue because of a sin of omission. At no point did any of the participants acknowledge that there's a wealth of empirical evidence showing that low tax rates are the most effective way of encouraging tax compliance.

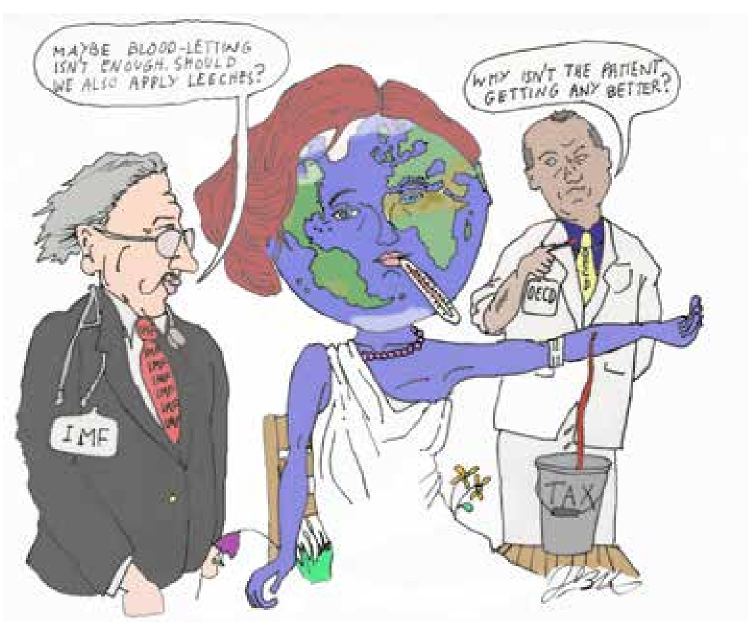
I realize that these observations are probably not a big shock.

So in hopes of saying something worthwhile, I'll close with a few additional observations

- I had no idea that people could spend so much time discussing the technicalities of taxes on international shipping. I resisted the temptation to puncture my eardrums with an ice pick.
- From the moment it was announced, I warned that the OECD's project on base erosion and profit shifting (BEPS) was designed to extract more money from the business community. The meeting convinced me that my original fears were – if possible – understated.
- A not-so-subtle undercurrent in the meeting is that governments of rich nations, when there are squabbles over who gets to pillage taxpayers, are perfectly happy to stiff-arm governments from poor nations.
- The representative from the U.S. government never expressed any pro-taxpayer or pro-growth sentiments, but he did express some opposition to the notion that profits of multinationals could be divvied up based on the level of GDP in various nations. I hope that meant opposition to "formula apportionment."
- Much of the discussion revolved around the taxation of multinational companies, but I was still nonetheless surprised that there was no discussion of the U.S. position as a very attractive tax haven.
- The left's goal *(at least for statists from the developing world)* is for the United Nations to have greater power over national tax policies, which does put the UN in conflict with the OECD, which wants to turn a multilateral convention into a pseudo-International Tax Organization.

***P.S. The good news is that the folks at the United Nations have not threatened to toss me in jail. That means the bureaucrats in New York City are more tolerant of dissent than the folks at the OECD.***

***Daniel J. MITCHELL***
*Member of CIFA 's Advisory Board*



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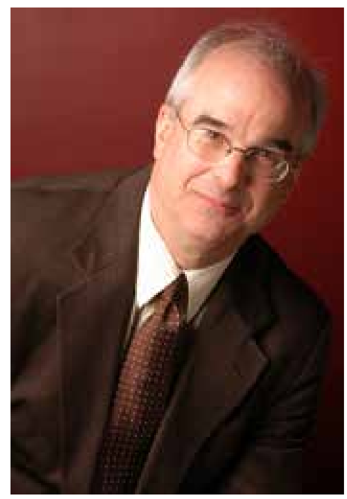

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# The Caux Round Table for Moral Capitalism

**VISION**

- Responsible Business Building a Better World

**MISSION**

- Create Sustainable Values for Business
- Promote Principled Business Leadership
- Enhance Business Contributions to Global Prosperity

**OUTCOMES**

- Enlightened Leadership and Effective Governance
- Meaningful Stakeholder Engagement
- Enhanced Long-Term Business Value
- Improved Social Capital for Economic Growth and Sustainable Development
- More Trust in Business

It is widely agreed that the world is at a major inflection point. We are passing from an age of change to a change of age. We face grave threats to the health of our planet and all it's socioeconomic, political, and cultural systems. Our current course is unsustainable.

But to change course, we need a new mindset that replaces the quest for dominance with the values of stewardship, especially in business. We need to learn to live sustainably.

Our world can not become sustainable unless business delivers innovation, technology, finance, and leadership for shared prosperity. Furthermore, business and finance — in short capitalism — cannot succeed in the coming age of stewardship responsibilities without forging mutually beneficial partnerships with governments and civil society.

The Caux Round Table for Moral Capitalism (CRT) is committed to this cause and the task of achieving the proposed sustainable development goals (SDGs). We recognize that the proposed 17 global goals to be presented to the General Assembly of the United Nations are only aspirational statements of desired real outcomes. It is vital that practical assessment be made from the outset of how they are to be achieved. The CRT has, therefore, already convened a series of 20 round tables in different cities around the world in order to gather insights and concerns about the practical implementation of the goals. The CRT is further committed to assisting through the years ahead with the process of practical assessments that will be needed to monitor progress and fulfillments.

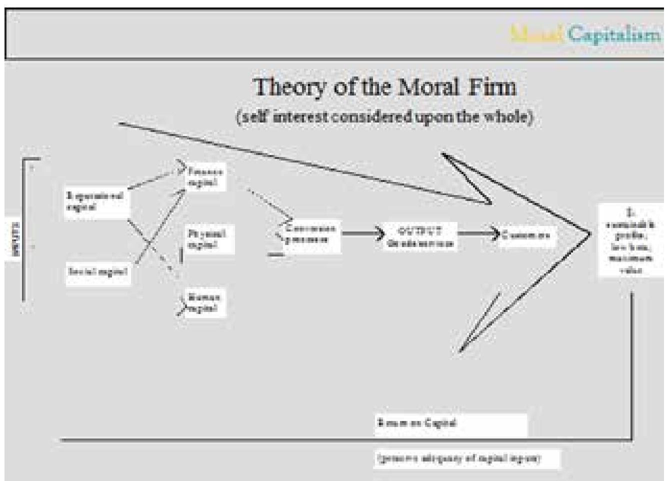
Markets, with their supply and demand curves setting prices, their incentives for innovation, and their satisfaction of needs and wants, far out perform governments and non-profits in the creation of jobs and wealth. Without business, poverty will never be eliminated from our communities.

Without a robust private sector, free to create wealth, both governments and non-profits will fall short in funding their aspirations to do good. Both tax receipts and charitable donations will be disappointingly insufficient. There can be no sustainable development of wealth without sustainable financial investment.

The business sector most in need of new stewardship norms is finance — banking, investments, intermediation and trading, liquidity management, and asset accumulation.

### *Theory of Moral Capitalism*

The CRT proposes that enterprises small and large hold an office of service to society. As such stewards, their self-interest must be understood upon the whole ecosystem in which they seek to be successful. As a result, firms need to pay returns on all the forms of capital which sustain their profitability as shown here:




The CRT in 1994 advanced best practice principles to mobilize stakeholders as capital assets of firms deserving of sharing in the wealth created by the enterprise.

The CRT Principles are:

**PRINCIPLE 1: RESPECT STAKEHOLDERS BEYOND SHAREHOLDERS**

- A responsible business acknowledges its duty to contribute value to society through the wealth and employment it creates and the products and services it provides to consumers.
- A responsible business maintains its economic health and viability not just for shareholders, but also for other stakeholders.
- A responsible business respects the interests of, and acts with honesty and fairness towards, its customers, employees, suppliers, competitors, and the broader community.

**PRINCIPLE 2: CONTRIBUTE TO ECONOMIC, SOCIAL AND ENVIRONMENTAL DEVELOPMENT**

- A responsible business recognizes that business cannot sustainably prosper in societies that are failing or lacking in economic development.
- A responsible business therefore contributes to the economic, social and environmental development of the communities in which it operates, in order to sustain its essential 'operating' capital – financial, social, environmental, and all forms of goodwill.
- A responsible business enhances society through effective and prudent use of resources, free and fair competition, and innovation in technology and business practices.

**PRINCIPLE 3 – BUILD TRUST BY GOING BEYOND THE LETTER OF THE LAW**

- A responsible business recognizes that some business behaviors, although legal, can nevertheless have adverse consequences for stakeholders.
- A responsible business therefore adheres to the spirit and intent behind the law, as well as the letter of the law, which requires conduct that goes beyond minimum legal obligations.
- A responsible business always operates with candor, truthfulness, and transparency, and keeps its promises.

**PRINCIPLE 4: RESPECT RULES AND CONVENTIONS**

- A responsible business respects the local cultures and traditions in the communities in which it operates, consistent with fundamental principles of fairness and equality.
- A responsible business, everywhere it operates, respects all applicable national and international laws, regulations and conventions, while trading fairly and competitively.

**PRINCIPLE 5: SUPPORT RESPONSIBLE GLOBALISATION**

- A responsible business, as a participant in the global marketplace, supports open and fair multilateral trade.
- A responsible business supports reform of domestic rules and regulations where they unreasonably hinder global commerce.

**PRINCIPLE 6: RESPECT THE ENVIRONMENT**

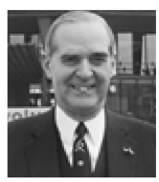
- A responsible business protects and, where possible, improves the environment, and avoids wasteful use of resources.
- A responsible business ensures that its operations comply with best environmental management practices consistent with meeting the needs of today without compromising the needs of future generations.

**PRINCIPLE 7: AVOID ILLICIT ACTIVITIES**

The CRT has found that its principles resonate very well with all major wisdom traditions from Confucianism and Islam through Catholic Social Teachings to traditional ethical standards in Africa and indigenous Meso-American communities.

## *CRT History*

The CRT first convened at Mountain House in Caux, Switzerland, in 1986 to discuss the growing resentments between Japanese and Western firms over the success of the Japanese in producing high quality, low-cost consumer products.



**Frits Philips** *(on right)*, Chairman of Philips Electronics, and Olivier D'Estaing convened the meeting.

Subsequently, **Ryuzaburo Kaku** *(on right)*, Chairman of Canon, and then Winston Wallin, CEO and Chair of Medtronic, served as Chairs of the network.

Today's CRT Co-Chairs are **Brad Anderson** *(on right)*, former CEO of Best Buy Inc, and **Tunku Abdul Aziz** *(on left)*, former Vice President, Transparency International and founder, Office of Ethics, United Nations.

**Stephen B. Young** is the CRT Global Executive Director.

* * *

The CRT recommends the following goals for global business leaders:

1. Affirming the stakeholder and societal obligations and duties of corporations in corporate law perhaps by including formal stewardship obligations in corporate governance requirements *(The UK Corporate Law reforms provide one such model)*.
2. Strengthening regulation, monitoring, and supervision of markets.
3. Countering short-termism and rewarding long-term value enhancing investment by curtailing quarterly reporting of nominal earnings, providing tax incentives or subsidies for long-term holding of securities and/or imposing disincentives for short-term speculative holding of securities.
4. Board Directors and CEOs making a personal commitment to support sustainable development. *(To this end, the CRT has developed a model personal pledge for CEOs and Board members to take. See Annex 1 on following page)*
5. Mandating ethics and sustainability training for Directors, CEOs and senior executives through the efforts of business schools, chambers of commerce, and institutes of company directors.
6. Further clarifying directors' duties in corporate law to counter the widespread but misguided belief that shareholder value has dominion over the purposes of corporate activity.
7. Developing improved accounting rules and practices that properly recognize stakeholder relationships and other intangibles as assets and liabilities of the firm.
8. Realigning executive incentives to ensure that they promote long-term value creation and protect against the agency problem of self-interest.

**9.** Creating a values-based annual reporting program for corporations, which details contributions to and performance against standards of wise stewardship and the SDGs.

* * *

### *Management for Moral Capitalism Assessments available from the CRT*

**Arcturus** – company assessments setting risk-management standards for the future management of stakeholder relationships to immediately enhance the net present value of a firm.

**Corporate stewardship compass** – company assessment to illuminate the core values of a firm, those convictions reflected in firm practices – good or bad – which lead to firm results.

**Decision Styles Inventory** – a self-assessment for employees at all levels to guide them towards responsible decision-making with respect to stakeholders.

* * *

For further Information contact:

**Stephen B. Young** at *steve@cauxroundtable.net* or at 6 West Fifth St., Suite 300, St Paul, Minnesota USA 55102

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## ANNEX 1

## THE ENLIGHTENED WAY

**BUSINESS LEADERS' COMMITMENT:** A Personal Pledge to Seek Sustainable Development

**As a Board Director or Chief Executive, I recognize that:**

- companies will not be able to deliver acceptable levels of profitability into the future unless the societies and environments within which they operate are sustainable; and
- we, as business and community leaders, therefore need to step forward, in word and deed, to ensure that our companies fully embrace their broader responsibilities to society and to sustainable development.

**I freely and willingly make the following pledges:**

**PLEDGE 1 — ASSUMING SOCIAL RESPONSIBILITY**

**I accept that:**

- the activities of my company, and the decisions I take, directly affect the well-being, resilience and sustainability of the communities where we operate, now and in the future; and
- responsible and ethical business practices are, without question, necessary components of any fair and well-functioning society and are the principal drivers of sustainable development.

**I therefore accept a duty to lead my company in:**

- contributing to society's well-being through the wealth and employment my company creates, and the products and services it provides;
- balancing the financial interests of our business and shareholders with the aspirations of other stakeholders for shared prosperity and sustainable development; and
- promoting peaceful and inclusive societies and supporting access to justice for all through effective, accountable and inclusive institutions at all levels.

**PLEDGE 2 — CONTRIBUTING TO SUSTAINABLE DEVELOPMENT**

**I accept that:**

- business cannot be sufficiently profitable in societies that lack sustainable development;

- climate change and environmental risk is real and must be factored into investment and development decisions; and
- future generations have a right to inherit a viable world and to enjoy rising standards of living.

**I therefore accept a duty to lead my company in:**

- promoting inclusive and non-discriminatory employment and respect for human rights;
- adopting best practice environmental management in minimizing the company's environmental footprint and impacts, including the prudent and sustainable use of scarce natural resources while supporting sustainable consumption and production;
- aligning compensation and incentive structures with long-term sustainable performance;
- fostering innovation;
- ensuring that our business activities support - and do not detract from — all efforts to eradicate poverty, end hunger, ensure equitable educational opportunities, and reduce inequality;
- contributing to public policy development towards sustainable development.

**PLEDGE 3 — BUILDING TRUST IN BUSINESS**

**I accept that:**

- some business behaviors, although legal, can nevertheless have adverse consequences for communities and hence sustainable development;
- while business laws and regulations are essential, they are insufficient guides for responsible and sustainable business and market conduct; and
- my company must recognize the full social and environmental costs of its business operations and minimize the extent to which they are charged to society.

**I therefore accept a duty to lead my company in:**

- operating ethically in adhering to both the spirit and intent behind the law, rather than simply complying with the strict letter of the law;
- always acting with candor, honesty and fairness; and
- supporting, upholding and practicing good corporate governance and responsible stewardship while fostering a culture of ethics within the enterprise.

**PLEDGE 4 — AVOIDING ILLICIT ACTIVITIES**

**I accept that:**

- bribery and corruption not only damage the governance and sustainability of corporations, they seriously degrade efforts to achieve higher levels of economic growth, social justice, and environmental well-being; and
- collective or unilateral action that abuses market power or dominance, or engages in anti-competitive activities, is equally damaging to overall social welfare and economic growth and hence sustainable development.

**I therefore accept a duty to lead my company in:**

- ensuring that my company does not participate in, or condone, bribery or corrupt payments and practices such as financial crimes, anti-competitive actions or other illicit activities; and
- supporting anti-bribery and anti-corruption laws and measures including enhancing the awareness of the problems of corruption and bribery.

**I will remain accountable to society for my actions in support of sustainable development and for upholding these pledges.**

# The Growing Need for Professional Cooperation


## Paul Stanfield

*CEO, FEIFA (www.feifa.eu)*
*Secretary General, FECIF (www.fecif.eu)*


People are becoming ever more mobile. For instance, 8 million US citizens are presently living somewhere other than their country of birth and over 5 million UK passport holders are now said to reside abroad.

On the other side of the coin, the UK has one of the most internationally diverse populations in the world. In fact, in 2011, 7.5 million people, 13% of the resident population of England and Wales, were born outside the UK. Those figures can only have increased since that time.

Taken together, this is a cumulative figure of more than 20 million people who have moved to a country other than their birth and these figures don't even take into account many of the other expatriates around the globe.

This increasing mobility means that there are also a growing number of descendants, family and heirs who are also affected by these changes.

In short, more and more clients – especially the wealthier ones who are more likely to need a financial planner and other professional services – have assets, income, liabilities or beneficiaries in more than one jurisdiction. Often, they have a combination of these aspects.

### The resultant problem

This ever more common scenario adds complexity and risk to these individuals' affairs. That may be due to complicated tax rules, varying legislative frameworks or simply the vagaries of currency exchange.

It is increasingly difficult for financial advisers and other professionals to deal with all of the challenges of these cross-border circumstances on their own.

### The solution

Having access to a network of fellow professionals in other jurisdictions, whether these be financial advisers, solicitors, accountants, tax experts and the like, is therefore becoming increasingly necessary for many professionals.

Creating interactions and a conduit between financial advisers and professionals from other areas of specialisation across the UK and the whole of mainland Europe, and ultimately across the world, will assist all of these experts in better serving their clients who are expats and/or have cross-border assets or needs.

At FEIFA, we have therefore been working for some time with regards to assisting professionals from many different spheres to work together in order to create the best possible outcomes for such clients. In fact, we now have a specific membership category, Associates, in order to facilitate this in a structured and appropriate manner.

The main professions that are relevant for such membership tend to be lawyers, accountants, tax specialists, mortgage and finance experts and paraplanners – but any relevant professional may be considered, where appropriate.

If you believe that you can assist all of your clients – or prospective clients – in every area of their financial world I think you may be deluding yourself to a degree. Working with other appropriate professionals in some instances will lead to better and more holistic advice, happier clients and, ultimately, a greater "share of wallet" and quality referrals. That is a positive result for all stakeholders.

***Paul Stanfield***

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*__PAUL STANFIELD__ has considerable experience in both the provision of independent advice and the promotion and distribution of investment funds and financial products, having worked in the Financial Services Industry for more than than a quarter of a century, in both the UK and mainland Europe. He co-owned and was Managing Director of an independent advisory company for more than ten years. Presently based in London, Paul has been the CEO of FEIFA, the Federation of European IFAs, since it was launched in 2009. Since April 2014, he has also held the role of Secretary General at FECIF, the Federation of European Financial Advisers and Intermediaries. In addition, he also runs a specialist consultancy business, providing marketing and business development expertise to a wide range of companies.*


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CIFA INITIAL CONTRIBUTOR

# INVITATION / INSCRIPTION

## Déjeuner-conférence 20 Avril 2018

Nous avons le plaisir de vous inviter, avec vos collègues et ami(e)s à notre prochain déjeuner-conférence qui aura lieu à Genève, organisé en collaboration avec Bluecap, Membre du GSCGI et la Banque Heritage.

Le thème suivant, d'actualité certaine et de grand intérêt pour les conseils en gestion indépendants, les gestionnaires de fortune indépendants, les gestionnaires de fonds d'investissements et les analystes financiers, ainsi que tout acteur de la place financière en général, sera présenté:

# ISR 2.0

## *Au-delà des critères d'investissement socialement responsable, la notion de Partage*

**Eric A.C. Serra,** *Associé, Bluecap SA*
*MA en gestion internationale, HEC Genève.*

*Responsable de salle des marchés, vente de produits financiers, clientèle institutionnelle et privée auprès de Crédit Suisse, Monte dei Paschi di Siena, Banque Von Ernst.*

*De 2006 à 2012, chargé de cours de Finance auprès de la European University Business School.*

*Indépendent depuis 2003, Président de la commission d'éthique professionnelle du GSCGI de 2009 à 2017, a rejoint* ***Bluecap*** *en 2012.*

**Marcos Esteve** *joined the Bank in 2006 and has held a number of key senior management positions before being named Chief Executive Officer in July, 2017. From January 2014 to July 2017, Marcos was Global Head of Private Banking. His prior assignments included Chief Financial Officer and Chief Operating Officer of the Bank, positions which afforded him an in-depth and thorough understanding of the intricacies of banking operations, the inherent regulatory framework, and the bank's client service offering. Before joining Banque Heritage, he was Chief Financial Officer at a leading firm in the global fashion industry where he was responsible for the financial management of the group and where he also sat on the Board of Directors. During this time, he was appointed a member of the Board of Directors and of the Executive, Audit, and IT committees at Banque Heritage. Marcos started his professional career in the corporate internal audit division of Nestlé's Swiss headquarters.*

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**Jean-Charles Crouzet** *joined Banque Heritage in 2008 as a Head of Hedge Fund Research/Portfolio Manager within the Alternative Investment Department. Prior to joining Heritage he gained extensive experience in the field of alternative investments. Mr. Jean-Charles Crouzet worked for Alternative Investment Services in Geneva (partner) as a senior hedge fund analyst and portfolio manager, for PRISM invest in Morges as a Senior Analyst/Portfolio manager, and for Agora Capital Services in Geneva as a senior Analyst/Portfolio manager. Prior to that, Mr. Jean-Charles Crouzet started his career in London as a fixed income trader on emerging markets (NatWest Markets, Nikko Europe plc). Mr. Jean-Charles Crouzet holds a M. Sc in Finance from the Strathclyde University of Glasgow and a BA (Hons) in European Studies from the Humberside University.*

**Mikaël Safrana** *heads fund selection within the Asset Management department of Banque Heritage. The team focuses on long-only & Alt-UCITS strategies used throughout discretionary and advisory mandates, covering all major asset classes and regions. Mikaël is an active member of the advisory team, member of the investment committee and further responsible for developing partnerships with fund managers through white labelling initiatives in differentiating themes and approaches. Prior to joining Banque Heritage in 2015, Mikaël has held various positions as a buy-side analyst, portfolio manager and sales trader, starting his career at Lombard Odier Darier Hentsch & Cie and engaging in a number of ventures prior to returning to investment management. Mikaël is a B.Com graduate from McGill University in Montreal and a CIIA charter holder.*

## PROGRAMME

| | |
|---|---|
| **Date** | **Vendredi, 20 Avril 2018** |
| **LIEU** | Métropole, Quai Général-Guisan 34, Genève, Suisse |
| **12h00** | Enregistrement & networking cocktails |
| **12h30** | Conférence & Session Q&A |
| **13h00** | Début du repas |
| **14h00** | Fin de conférence |

**luncheon is graciously offered by Bluecap & Banque Heritage**

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