

Time for a Normative Reset: Setting the Context

The work of The Rethinking Capital Foundation has at its core a normative approach.

Normative theory is the only set of ideas that explains what is happening, why changes are happening and how these changes affect business, the economy and society. It also provides a practical agenda on what can, or should be done.

Normative theory and society

Deep seated forces are shifting societal expectations. Digital connectivity through widespread use of multi-media platforms is giving ever-greater power and influence to the interests and concerns of younger generations and others often excluded and marginalised. Existing institutional arrangements are being challenged and traditional hierarchies are being up-ended.

Social expectations are social norms defined as the “*rules and standards that are understood by members of a group, and that guide or constrain social behaviours without the force of law*”.¹ These societal underpinnings provide a starting point and a strategic goal for considering how business and the economy operate today, and how they could or should operate in the future. As fundamental beliefs change, they lead – downstream – to modifications in public attitudes, conditioned by what the public considers ‘just’, ‘right’ or ‘fair’. Eventually this evolving sense of social justice alters the rules, particularly in important institutions – like legislative assemblies, standards, rules and principles and the sensibilities of juries setting legal precedents.

Normative theory is therefore closely linked to the societies that it serves. Consider the statement, “*inequality is wrong*”. It is a normative statement because it expresses a moral judgment about how society, presently structured (i.e. ‘*the what is*’) is challenged by society’s evolving *sense of social justice*. For example, in the case of trans-women, for instance, gender discrimination falls short of the aspirational ideal; what many young people believe these gender relations ‘*ought to be*’.

Normative theory’s historical relevance lies in its driving forces, which have been operating in western society for many centuries. Normative resets are quite common in western history and have transformed society, its government(s) and economy. A democratising *sense of social justice* lies behind:

- the emancipation of serfs (late Middle Ages)
- the rise of religious freedom (17th century)
- democratic political reforms, particularly the American and French Revolutions (18th century), the abolition of slavery, the Great Reform Act(s) (19th century),
- ‘votes for women’ and a host of liberation movements for minorities
- rapid technological improvements and a human ‘rights’ revolution (20th century).

The relationship between social norms and the economy is mutually reinforcing: for example, the increased scrutiny of labour practices in supply chains and the focus on sustainable practices in fishing and forestry, create a new pressure on supply chain management over and above minimising costs to maximise shareholder value. The multi-stakeholder agreement to outlaw ‘conflict’ or ‘blood’ diamonds demonstrates the impact of a global campaign giving voice to changing social norms. The UN reached the Agreement in 2000 together with the EU, the governments of 74 countries, the World Diamond Council and NGOs.

The relevance of a normative approach to what should be done in future lies in its process. Since it takes its cues from social dynamism, it recognises changes should be in line with these norms. A dynamic society creates ‘normative gaps’, a distance between the status quo ‘*what is*’ and the ‘*what ought to be*’. Closing those gaps and evolving to a new higher consensus in society will create a new era of social harmony, increased prosperity and hope.

Social norms are powerful but not all-powerful; they need to work with the grain of the fundamental forces that are shaping the economy. History does not go in straight lines there are always counter forces – forces that wish to oppress change or even reverse it! For example, at the time of writing, we are seeing a reversal in some US states of legalised abortion. So, change is not unidirectional. All these shifts, and their transformative effects, call for a corresponding shift in mind-set: one that recognises and understands the relationship between changing social norms on the one hand, and the forces that are shaping the economy on the other.

What's Happening? Why do we need a Normative Reset?

Neoliberalism has had its day: For over four decades, neoliberalism has ruled the western mind. In that time neoliberalism has had some major successes. There is little doubt that neoliberal values helped create a prolonged period of global growth, raising hundreds of millions out of poverty. However, neoliberalism has also placed limitations on the role of government, obscured the true nature of market forces – and unfortunately – financialised the ‘theory of business’ so that corporate interests no longer clearly align with society’s values.

The limitations of neoliberalism lie deep in its theoretical architecture. Neoliberal philosophy, particularly its metaphysics of ‘*extreme individualism*’, has placed the unimpeded individual at the centre of western life. This is rooted in the idea that ‘*society doesn’t exist*’, that we’re all individuals with no moral responsibility toward one another. We believe that this idea is as dangerous to western life as the collectivist idea that ‘*only society exists*’ – that states-interests must always override the rights of individuals.

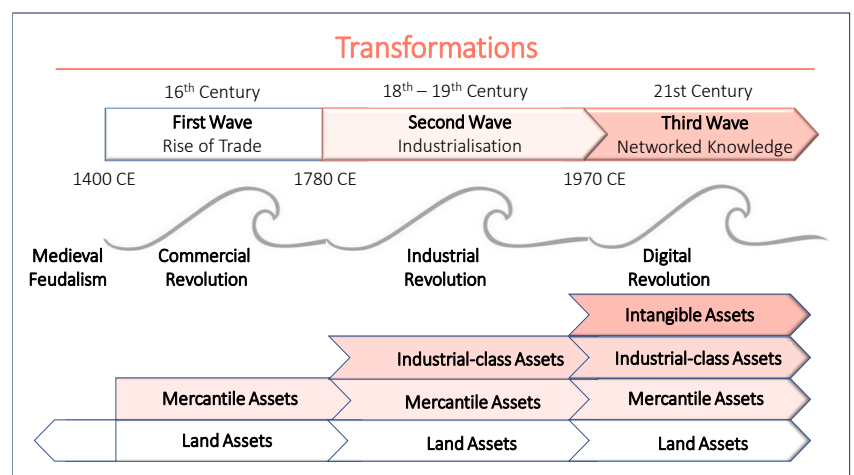
On the one hand, and despite clear economic achievements, these flaws in neoliberalism have weakened the idea of social responsibility, undermining the importance of individual self-regulation in business. While on the other hand, neoliberalism laid the ethical foundations for the cult of personal absolutism. This has infected our governing institutions with a dangerous woke negativity. These paradoxes embedded in our governing orthodoxy have left many western states (particularly English-speaking nations) weakened and divided socially, unable to deal with much needed reforms, such as inequality, racial or gender discrimination or how to integrate the new digital economy fully into modern capitalism.

Neoliberalism’s economic ideas originated over a century ago in the industrial age and, given the massive changes in value creation today, these ideas no longer reflect commercial reality nor do they meet society’s needs.

The Normative Agenda: The Normative worldview starts with a positive view of history and human progress. Normative thought embraces the (ethical) centrality of the ‘individual-in-society’, and is predicated upon the belief that both individual advancement and societal harmony are necessary to human progress.

Normative Capitalism. Normative capitalism acknowledges that there is a paradigm shift occurring in modern capitalism, what we are describing as Capitalism 3.0. Similar shifts have occurred in western capitalism over the past half millennium:

- **Capitalism 1.0 – Commercial Revolution:** the first major asset revolution in western capitalism occurred the 15th century. In what was to become a predictable pattern, the economy changed first and dramatically, transitioning from a closed feudal agricultural economy to a dynamic trading regime. Economic historians describe this revolutionary leap as the commercial revolution, and the rise of mercantilism.



- **Capitalism 2.0 – Industrial Revolution:** this occurred the 18th and 19th centuries. Once again, the economy changed first, transitioning from its home-based domestic system to a mechanical factory based industrial economy. Economic historians describe this revolutionary leap as the industrial revolution.
- **Capitalism 3.0 – Digital Revolution:** a networked digital economy is driving capitalism's third major asset revolution of the modern era. Each of the major economic transitions described above established new economic drivers that generated new forms of capital. This led to necessary revisions to those institutions that surround and sustain the value in capital and the capitalist system.

The bottom line is that capital is a social good, but capitalism needs policies and practices that are fit for today.

Normative Economics: Normative economic principles are rooted in the private ownership of property, the foundational principle of capitalism. However, normative economics recognises that the 'things of value' themselves and the legal title that support the ownership of property are both social in origin. Therefore, society, its changing norms, values and sensibilities are both the starting place and the strategic goal of normative economic theory. In addition, normative economics has a broader 'analytical scope' than neoclassical economics and centres its analytical focus on capital, 'what it is', 'how it changes' and 'how all this impacts value creation' rather than focusing narrowly on market exchange processes.

Unlike orthodox neoclassical economics, normative economists rely more on social value judgments as opposed to market purism doctrines that place an overreliance on market outcomes. In normative economics, economists and policymakers often evaluate alternative economic policies based on their social value or 'fairness'.

Normative Accounting: largely but not exclusively because of these changes in the economy, flaws in accounting theory and practice have now been exposed. These flaws 'flow through' to distort public and private sector financial reporting. The inability of modern accountants to incorporate intangible assets into financial statements biases important economic statistics leading to a significant underreporting of corporate wealth, as well as national GDP and productivity statistics.

Normative Governance: Neoliberalism's impact over the past few decades has increased global prosperity but it has also been devastating to social advancement in western nations. Normative governance champions a transition for governments, evolving from passive bystanders to visionary catalysts in social and economic change. Obviously to play this role governments need to rebuild internal competencies and find the precious resources to fulfil their role. In order to accomplish this new role, normative theory challenges the conventional monetary assumption that governments, like households, are only 'users' of money. In reality, sovereign governments have access to all the money they need. They have a legal right (technically, a monopoly right) to generate and circulate monetary resources - including credit - in their economies.

At the corporate level neoliberalism has undermined the very idea of economic stewardship. Normative accounting reforms will lead to better, more commercially relevant financial reporting that will include a broader range of tangible and intangible assets, like environmental phenomenon and human-creative capital. Incorporating these non-traditional assets into corporate financial statements will broaden the calculation of corporate success. These new reporting metrics will also help transition board of directors, senior management and other decision-makers towards aligning the best interests of shareholders and all stakeholders.

Road Map for a Normative Reset

Today, as in previous shifts, a new approach is needed to address systemic blockages in society and its institutions that are inhibiting the achievement of widely held social goals.

Through our work we are identifying a road map, using a model of system change with suggested agendas for change, to achieve a normative reset.

References and notes

¹ Cialdini, R. B., & Trost, M. R. (1998). Social influence: Social norms, conformity and compliance. In D. T. Gilbert, S. T. Fiske, & G. Lindzey (Eds.), *The handbook of social psychology* (pp. 151–192). McGraw-Hill.

Further reading in this series

‘The Normative Method’ describes our work in identifying the methodology behind normative resets in the past.