

OCTOBER 13TH 2016 / GOLDEN TULIP (HOTEL DE VILLE), BEIRUT



Konrad
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PRACTICAL WISDOM, SOCIAL PARTNERSHIP & COOPERATIVE GOVERNANCE:



WHAT LEBANON AND THE REGION CAN LEARN FROM THE SUCCESS OF SOCIAL MARKET ECONOMY



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NOTRE DAME UNIVERSITY'S BENEDICT XVI CHAIR AND THE KONRAD ADENAUER FOUNDATION

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PREFACE

The German model of economic coordination is known and respected around the world. During the post-World War Two period, structured cooperation between businesses, the state and civil society led to over half a century of continuous prosperity. Few outside of Central Europe actually understand this phenomenon in detail and even fewer have seriously grappled with the question of whether or not it is exportable. Termed 'Soziale Marktwirtschaft' (SMW), or social market economy in English, the German approach to economic harmony and conflict transformation promotes key societal concepts prevalent in the Global North, including good governance, social partnership, corporate social responsibility (CSR) and social justice. Rooted in the turbulent experiences of 20th Century Europe, SMW is the expression of a steep learning curve on the part of German business, organized labor and a government uniting Christian Social, Social Democrat, and Liberal traditions. Often referred to as a 'third way' between laissez-faire liberalism and socialist economics during the Cold War, the social market aims at promoting the moral values which were always inherent within private enterprise. Many experts have argued, however, that SMW is too Central European to be applied to the realities in the Middle East. The Benedict XVI Endowed Chair of Religious, Cultural & Philosophical Studies (www.ndu.edu.lb/academics/faculty-of-humanities/benedict-xvi-chair) and the Lebanon Office of the Konrad-Adenauer-Stiftung (KAS - www.kas.de/libanon) attempted to test this assumption during a hands-on, one day workshop in the fall of 2016.

This event brief was produced by Eugene Sensenig, Faculty of Law and Political Science, Notre Dame University Lebanon
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THE BEIRUT CONFERENCE: A CONTINUED DEBATE BETWEEN ACADEMICS AND PRACTITIONERS ON MORAL CAPITALISM

The Beirut conference on “Practical Wisdom, Social Partnership and Cooperative Governance” aimed at advancing an ongoing conversation on the potential for ‘moral capitalism’ in the MENA Region. Will corporate social activism in the Global North gradually converge with traditional philanthropy and faith-based charitable giving in the Global South? Are international and domestic market forces being brought into equilibrium with the overall needs of an economy in the service of all of humanity around the world? Building on the March 2013 “Beirut Conference towards an Economy Serving Mankind” (www.ifpinfo.com/Lebanon-NewsArticle-2433), organized by KAS, the Islamic Christian Forum for Businessmen (MA’AM - www.ma-am.org) and the International Christian Union of Business Executives (UNIAPAC - www.uniapac.org), the October 2016 social market economy workshop explored the practical experiences of both regions over the last few years; asking what they can tell us about our ability to reconcile profitability, social responsibility, and rule of law.

The conference was structured as a dialogue between both: the theoretical and the practical, as well as the North and the South. By juxtaposing SMW in Central Europe with the traditions of Lebanese business leaders and civil society at home and abroad, an attempt was made to discover where their experience intersected and where the two regions seem to be incompatible. By applying the theoretical concepts of divergence and convergence, the potential for market driven entrepreneurial benevolence in Germany and Lebanon was highlighted and compared. The one day workshop was divided into three sections. In order to establish a base line, speakers from Central Europe described the cultural and political embeddedness of SMW in the realities of their region. Fundamental theoretical tools commonly used to compare ethical business practices in the Global North and Global South were contributed by two Lebanese economists from the American University of Beirut (AUB). The perspective of the practitioner was provided by entrepreneurs and civil society activists working in the fields of construction, pharmaceuticals, social services, the environment and faith-based business ethics.

SMW GOES FAR BEYOND THE MERE ‘NOBLESSE OBLIGE’ OF THE ECONOMIC AND POLITICAL ELITES: THE CONCEPT OF SUBSIDIARITY

SMW was described as a response to the economic and political crises which plagued Europe during the 19th and 20th centuries, culminating in the tragedy of the Second World War. Combining the theoretical and practical approaches, **André Habisch** of the Catholic University of Eichstätt-Ingolstadt, described the German academic tradition of ‘Rhine Capitalism’ with its roots in the social reform movement dating back to the 1880s within Bismarck’s Germany. He pointed out that secular Liberal and socially minded Christian thinkers attempted to create a

model which blended the needs of a rapidly industrializing economy, following German unification in 1871, with the legitimate complaints of working class families who felt alienated during the period leading up to World War One. Habisch also pointed out that SMW was rooted in, what he termed, “implicit CSR”, including the entrepreneurial paternalism of small and medium sized – largely family owned – enterprises (SME), the self-administered business and labor organizations and their corresponding social welfare institutions, the workers’ councils (Betriebsrat) within most German companies, and the overarching Catholic concept of subsidiarity, by which all decisions should be taken at the lowest possible level. He also pointed out that SMW helped overcome the inherent divide within Germany between predominantly Protestant northern and Catholic southern parts of the country, thus helping promote a spirit of confessional dialogue. Accordingly, SMW goes far beyond the mere ‘noblesse oblige’ of the economic and political elites. Based on the Central European concept of ‘codetermination’ (Mitbestimmung), employers’ and employees’ organizations built on the longstanding tradition of voluntary cooperation within the professional, vocational, and religious institutions in order to rebuild Germany following the collapse of the Nazi Reich in 1945.

ASHES OF DEVASTATION AS A SOIL FOR CORPORATISM, ECOLOGISM AND VALUES

Taking Habisch’s introduction as a point of departure, **Eugene Sensenig** of Notre Dame University in Lebanon provided additional insights into the embeddedness of SMW within the Central Europe environment, from an Austrian perspective. He pointed out that organized labor, including the leftist political parties, labor unions and consumer cooperatives, played an important role in establishing the institutions of ‘social partnership’. Prevalent in all three German speaking countries (Germany, Switzerland, Austria), this government sanctioned system of business-labor cooperation is rooted in the Catholic tradition of ‘corporatism’ as spelled out in the first Papal encyclical on social harmony and economic justice, *Rerum Novarum*, dating back to 1891. He also emphasized the significant role played by the environmentalist Green parties in expanding SMW to include ecologism within the context of the ‘Eco-social Market Economy’. Resident Representative of KAS Lebanon, **Peter Rimmele**, described the efforts of his organization in introducing SMW to the region. He pointed out how this conference was building on the 2013 forum with MA’AM and UNIAPAC and how shared values could help bridge the gap between Central Europe and the Middle East. He emphasized that SMW was built on the ashes of a devastated German economy in 1945 and thus it could be seen as an option for the crisis-ridden countries of the MENA. However, he emphasized that it would not be meaningful to argue in favor of a simplistic “duplication” of the concept of SMW in Lebanon or the region: it is rather general lessons learned from the German experience that should be taken into due consideration when Lebanon and the region search for their own balance between economic performance and social stability. **Martin Beck** of the University of Southern Denmark agreed with Rimmele that

the main area in which Lebanon and Germany could find common ground was in their focus on values as a foundation for the establishment of rule of law. He pointed out that otherwise the two countries were highly dissimilar and that currently the introduction of SMW in the region would be difficult.

CONVERGENCE/DIVERGENCE DICHOTOMY AND THE FUTURE OF SMW ELEMENTS IN LEBANON

Professors **Dima Jamali** and **Salim Chahine**, both of the Olayan School of Business at AUB, focused on the dissimilarities between the situations in Lebanon and Germany. This did not, however, mean that the constituent elements of a social market economy could not exist in the MENA, but rather that they were different in nature. At issue was not whether CSR, philanthropy, entrepreneurial paternalism, or individual charity were prevalent in both parts of the world, but rather whether they were convergent or divergent in nature. Both speakers pointed out that the standards and practices governing topic areas such as rule of law, a competitive market place, respect for human rights and a cooperative approach to conflict transformation were deficient in Lebanon. Thus, according to Chahine, although there is indeed an acute need for SMW in Lebanon, high levels of inequality and the weakness of the central government and its institutions make the introduction of the cooperative Central Europe model highly unlikely in the foreseeable future. Jamali's approach provided more hope that elements of SMW might have a future in Lebanon. Based on the convergence/divergence dichotomy commonly used in economic and political studies, she attempts to determine whether the Middle East and Central Europe are developing in disparate directions (thus diverging from each other), gradually becoming more similar (converging) or whether there is a mix of both ('crossverging') by which the two regions are moving apart and together at the same time. Jamali illustrated that a weak institutional framework, a prevalence of SMEs as opposed to the dominance of Multinational Corporations (MNC) in the local economy, high levels of inequality and strong faith-based traditions all indicate a trend away (divergence) from practices common in the Global North. Accordingly, business leaders tend to focus on philanthropic activities which compensate for the weak state. Their motivation is rooted in the paternalistic tradition of social responsibility within the entrepreneurial class and is focused on those communities immediately surrounding their businesses. Their sense of social responsibility is justified through personal and religious commitment to helping those obviously in need, more than by an abstract, perceived desire to implement international CSR norms and milestones. Jamali interprets the trajectory of the Lebanese market economy as being a hybrid of both domestic path dependency – thus divergent – and a response to international expectations within the global marketplace – thus convergent. The resulting 'crossvergence' allows private enterprise in the Global South to step in where weak national institutions and poor governance mechanisms are failing the country. Real SMW will only be possible when those conditions permitting its functioning in the Global North are established, including competitive market conditions, a strong central state, a vibrant civil society, respect for legal norms and economic openness.

REFLECTION OF REALITIES IN THE MENA REGION AND THE STANDARDS AND EXPECTATIONS OF INTERNATIONAL PLAYERS

Elements of Jamali's 'crossvergence' model could be found in the presentations of **Mira Thoumy** and **Omar Sakr** (Lebanon Mountain Trail Association LMTA www.lebanontrail.org), **Miguel Issa** (Arcenciel association www.arcenciel.org), **Joe Hatem** (MA'AM), **Hasan Younes** (Trust and Integrity in the Global Economy TIGE www.trustandintegrity.org) and the Lebanese-Nigerian businessman **Habib Jaafar**. Both LMTA and Arcenciel have adapted to the lack of robust and well-functioning state institutions by stepping into the void and providing leadership and sustainability based on personal convictions and, in many cases, a strong faith-based sense of commitment to society in general and their immediate surroundings in particular. As a Non-Governmental Organization (NGO), the LMTA has combined work with local communities, awareness raising on the national level and networking globally. Arcenciel, as a social enterprise, has moved from a service provider in the field of disabilities to becoming one of the major ecological SMEs in the country. As such, both LMTA and Arcenciel provide foundational elements for a future transition to an 'eco-social market economy'. MA'AM, with its links to UNIAPAC, and TIGE, as an integral part of the international sustainability and just governance NGO, Initiatives of Change (IoC - www.iofc.org), are both typical 'crossvergent' organizations. They reflect the realities in the MENA region as well as the standards and expectations of international players, many located in Central Europe. Both MA'AM and TIGE are examples of the role that inter-faith dialogue can play in promoting ethical business practices in the MENA region.

PATERNALISTIC TRADITIONS AND SOCIAL RESPONSIBILITY

Finally, Jaafar's description of the 'practical CSR' common in Nigeria illustrates the 'crossvergence' described by Jamali. Because of the weak central state and the absence of rule of law, MNCs and SMEs voluntarily allocate up to 5% of their profits to cover the social needs of their employees and the communities they are located in. This practice is anchored in the paternalistic traditions prevalent in West Africa and – among the Lebanese employers – in the Muslim and Christian approaches to individual charity and communal giving in the MENA region. Jaafar pointed out that in most cases the concept of social responsibility remains on the personal level amongst individual Lebanese entrepreneurs in Nigeria, who feel little pressure from the international community to fulfill the expectations set out by social responsibility protocols such as the UN Global Compact (www.unglobalcompact.org) or CSR Lebanon (www.csrlebanon.com).

CONCLUSION

The Beirut conference on “Practical Wisdom, Social Partnership and Cooperative Governance” has provided a practical approach to SMW, thus enabling a better assessment of its potential in the MENA region. Habisch described an “implicit CSR” tradition in Germany in the past, which is not dissimilar to the “practical CSR” in Nigeria as portrayed by Jaafar. Thus, the path to a socially responsible economic system should be located in the inherent tendencies within each society to balance the needs of people and profits. All participants seem to agree that SMW, as well as its constituent parts, should be studied based on concrete examples in order to determine whether the Middle East and Central Europe are moving closer together (convergence), increasingly moving apart (divergence), or integrating parts of their respective traditions, while excluding others (‘crossvergence’). Should SMW have a chance in the MENA region, it would seem that politicians, entrepreneurs and civil society activists must build on local customs, personal motivation, individual faith or world view and their respective ties to the global market, in order to compensate for the lack of the strong central state, which had provided the bedrock of SMW in Europe.