

DISTRIBUTISM - WAY FOR SUSTAINABLE ECONOMIC RECOVERY

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Abstract

As history of the last centuries has shown, the capitalism and the communism are generating economic crisis, in connection with a deeper crisis, i.e. the spiritual crisis, driven by the tendency of man's massification,, by which his spiritual qualities are strongly tainted over time. Distributism, promoting widespread ownership of productive ownership, is the only economic frame adequate to the anthropology of the person, namely of a true man.

Cuvinte cheie: Sustainable Economic Recovery, Distributism, Corruption, Economic Crisis, Spiritual Crisis

Clasificare JEL : A 10, A 12, P 12, P 31, P 51, Q 01, Z 13

1. Liberal capitalism - source of financial scandals and economic crises

It is recognized today, being reached even the performance of certain measurements, the strong impact of state institutions corruption on the economic environment in general, on economic development in particular. Corruption on state institutions level discourages investment, thus affecting economic growth (Mauro, 1995, Wei, 1999 Mo, 2001). It can be said that not only corruption on state institutions level affects economic development. Thus the main cause of contemporary global economic crisis is now often identified as being the moral decay recorded in countries where the crisis started. What is often omitted, however, is that the moral decay or corruption is a result of spiritual decay that characterizes both the communist and the capitalist systems. This causes that no matter how sophisticated the ethical codes are, they can not succeed more than a temporary mitigation of moral corruption, being followed by a proliferation of it into new forms, and perhaps even at a higher rate. However, it is clear today that the law is inherently incomplete (Pistor & Xu, 2003), therefore being imperfect. It happens so because legislators are unable to provide any further specific circumstances (contingencies) for situations governed by law (Pistor & Xu, 2003, p 1011).

Although it is often argued that in developed countries the morality is fostered with help of laws, in fact the most impressive economic and financial scandals of recent years occurred in such countries. We can refer, for example, at least to the most resonant cases in recent years: Waste Management (1998) Long-Term Capital Management (1998), Enron (2001), WorldCom (2002), Tyco (2002), Healthsouth (2003), Parmalat (2003), Freddie Mac (2003), Fannie Mae (2004), AIG (2005), Société Générale (2008), Bernie Madoff (2008). In the case of Waste Management, according to the information published by the federal agency U.S. Securities and Exchange Commission (SEC), in order to achieve the ambitious financial objectives of the company, its profits were "inflated" by \$ 1.7 billion, which ultimately led to losses for investors of more than \$ 6 billion (see: <http://tinyurl.com/pqnmqhl>).

Long-Term Capital Management was conducted by two economists, Nobel Prize winners (!) who ventured into huge bets, using predictive models based on statistical analysis. Losses reached \$ 4.6 billion in relation to derivatives (complex financial instruments including futures, forwards options or swaps). Company positions involved a large number of banks, which required the intervention of New York Federal Reserve Bank, that was in charge for the Federal Reserve System (the U.S. central banking system, FED) with the purpose of organizing a rescue bailout type, whose costs have amounted to \$ 3.6 billion (Bryce, 2004, p 6).

Enron bankruptcy was a real earthquake for the entire U.S. financial system and beyond. Symbol of aggressive New Economy, the 76 years old energy company, declared several years in a row by Fortune magazine as the most innovative American company (Keller, 2002), Enron "managed" by its failure to bring about losses amounting, only for its own shareholders, to \$ 70 billion (Bryce, 2004, pp. 7-8). Wall Street Journal showed how Enron made *ex nihilo* huge revenues just through repeated sales of its assets through a chain of entities controlled by it (Bryce, 2004, p 8). For the topic of this paper is important to point out that Enron failure was not only the biggest scandal to hit Wall Street until that time. He was also considered the largest political scandal in American history to date (Bryce, 2004, p 5), being considered as an impressive example of "executive piracy" (Bryce, 2004, p 7). It is also noteworthy the involvement of audit and consulting firm Arthur Andersen

(one of the five largest international companies at the time, "Big Five") in obstructing the investigations into accounting transactions through which investors were deceived - through the direct participation of Arthur Andersen was destroyed a large number of documents relating to these transactions (Bryce, 2004, pp. 6-8).

However, the Enron bankruptcy was eclipsed just after seven months by the bankruptcy of WorldCom, that took place on 21 July 2002 (Bryce, 2004, p 5). Thus, the market value of capital consisting of ordinary shares of WorldCom collapsed from the level of \$ 150 billion in January 2000 to a little more than \$ 150 million on July 1, 2002 (Lyke, 2002, p 2). What is significant for the theme of this paper is that investors were deceived WorldCom through accounting maneuvers made with the intention of overstating the company profits. Thus, on June 25, 2002, WorldCom acknowledged an accounting fraud of over \$ 3.8 billion, performed by recording as capital investment of a part of operating expenses for 2001 and the first quarter of 2002 (Lyke, 2002, p.1). Overall, the WorldCom fraud was however much higher: in March 2005, Bernie Ebbers, the former company CEO, was found guilty of orchestrating a record fraud of \$ 11 billion (Belson, 2005 White, 2005). Ranked in a 1999 list of personalities "that changed everything" on 26th place, Bernie Ebbers confessed to *Time Digital* as follows: "I believe God has a plan for people's lives, and I believe he had a plan for me". On this occasion, he referred to the enormous responsibility that he took towards people who in the the early years of WorldCom gave up their their life savings in order to entrust this business (*Bernie Ebbers, King of the WorldCom*. *Time Digital* 50, 1999. cited in Manning, 2002, p 44).

In the case of Tyco, the former CEO along with the former CFO and a former director were forced to pay \$ 150 million, as the appropriate restitution for the theft of company funds. Dennis Kozlowski (CEO) and Mark Swartz (CFO) were delving into money through granting themselves undisclosed low interest and interest-free loans from the company, as well as through some special, also undeclared, transactions with the company (cf: <http://tinyurl.com/pgfyzky>).

Richard Scrushy, CEO of Healthsouth, was also accused of falsifying the financial results of the company he was leading. He was the first executive director judged under the Sarbanes-Oxley Act (<http://tinyurl.com/6agtng>), adopted July 30, 2002 to cover issues such as auditor independence, corporate governance, internal control and improved presentation of the financial statements especially in order to protect investors due to the the financial scandals of previous years (Mircea, 2008; Sirbu, 2008). Richard Scrushy was acquitted on June 28, 2005 of all 36 charges. However, following just 4 months after this victory, he was convicted of trying to bribe the governor of Alabama ... (Pavlo, 2012). The investigations of the Alabama Supreme Court concluded that the company's profits Healthsouth were "inflated" by about \$ 2.6 billion in order to meet the overoptimistic estimates of Wall Street (Reeves, 2011).

The Italian food group Parmalat scandal occurred in 2003, when it was discovered that an alleged company account at the Bank of America, worth of € 4 billion, was actually nonexistent. Subsequently, it became apparent that the company's debt was 8 times higher than declared. Parmalat failure led to losses for over 100,000 investors.

The big public mortgage companies Fannie Mae and Freddie Mac (state-sponsored) have also been involved in financial scandals related to false reports. For example, in the case of Fannie Mae, financial and accounting maneuvers for undervaluation of company risks were used to overstate its revenue and equity with an estimated 2007 value of no less than \$ 10.6 billion. Through these maneuvers, the bonuses and the other compensations received by the management team have been seriously increased at the expense of shareholders (Christie, 2007, pp. 1-45). An important fact worth mentioning is that Fannie Mae and Freddie Mac operations have largely contributed to the U.S. sub-prime loans crisis (Calabria, 2011, p.11).

After accounting irregularities found at the huge insurance company AIG (American International Group), Hank Greenberg, its former CEO, was forced to abandon his position, without being judged, although ultimately AIG had to revise its profits by \$ 4.4 billion (Jennings, 2012, p 27). Only after 3 years following Greenberg's replacement, namely in 2008 (Shelp & Ehrbar, 2009, p XV), AIG was the subject of the largest bailout operation in the economic history of U.S. up to that date, amounting to the enormous sum of \$ 182 billion (Greider, 2010), granted on the ground that in this way the financial markets could be saved from the earthquake which would have been produced otherwise (Jennings, 2012, p 27). William Greider, famous American political journalist, said that this should be seen as key feature to understanding the financial crisis erupted in 2008, as well as its costly aftermath, given that it involved both high-level moral confusion and a miserable failure of U.S. public institutions towards american citizens (Greider, 2010).

Société Générale, as announced on 24 January 2008, lost from illegal transactions performed by its trader Jérôme Kerviel, no less than € 4.9 billion.

Bernard Madoff scandal broke out in December 2008, further exacerbating the global financial crisis started with the collapse of the giant investment bank Lehman Brothers. As a first estimate, the losses incurred by the thousands of victims (thousands of individuals and organizations) following the huge financial fraud were at least \$ 50 billion (Lewis, 2012, p 9).

A major international financial scandal, still ongoing, is that of the manipulation of LIBOR (London Interbank Offered Rate). In February this year were involved in the case several leading banks, including "the venerable" Royal Bank of Scotland, UBS, Barclays and even Deutsche Bank (Cf.: The Economist, February 9, 2013, <http://tinyurl.com/b2vnczq>).

Compared to such economic and financial, one can see that the romanian cases about Bancorex Romanian, Caritas or FNI - the most reverberating ones after 1989 - could achieve only some "humble" places. For example, in the case of FNI, the biggest financial scandal in the history of Romania after 1989, the claims made by March 31, 2013 by AAAS (formerly AVAS) for about 18,200 investors were estimated to just little over RON 398 million. From the original number of injured parties, were left to be solved 6,114 cases, who still have to be paid almost RON 30 million (sum unindexed to inflation) cf: <http://tinyurl.com/py22n74> - accessed May 19, 2013). Meanwhile, AAAS has taken over from the former National Securities Commission (CNVM) other 130,000 cases (<http://tinyurl.com/nlhrwj1> - accessed May 15, 2013). If these claims would require the payment of amounts of cash as large as those already paid (which is however unlikely), the required payment would be about RON 2.843 billion. Except for these cases, there are 282 notices received by the "Proprietatea" Fund, which should pay to FNI injured parties nearly RON 9 million. Putting together all these figures would lead to a total compensation of about RON 3.28 billion, the equivalent of nearly \$ 946 million at average exchange rate in 2012 (according to central romanian bank, BNR, in 2012 the average exchange rate was \$ 1 = RON 3.4682). According to a 2010 estimate, the total loss of FNI losers would amount to \$ 300 million (see: <http://tinyurl.com/qa34vou>).

2. Communism, capitalism and contemporary spiritual crisis

As it is well known, the present financial crisis snowball started from the same parts of the world where major financial scandals occurred, presented in the previous chapter. Capitalism, like Communism, engender therefore economic crises. As can be easily inferred from the analysis of the above presented financial scandals, these economic crises are closely linked with a much deeper crisis, which is the spiritual crisis.

Thomas Storck, economist and Catholic thinker, author of hundreds of articles appeared in prestigious catholic publications has shown that both in communism and capitalism there are great shortcomings in relation to the true human values. He said that: Communism was bad because human freedom was trampled under foot. Equally problematic, however, it is to indiscriminately embrace freedom, because a society is actually free only if its freedom is in harmony with the true human values (translated from romanian version of text, Storck, 2009, p. 320). In light of these shortcomings, it is strange - according to the same author - <<how economics, at least as it is customary in the West do not take the trouble to reconsider its own assumptions, it assumes as self-evident the ubiquity of human desires and the scarcity of material goods, but do not attempt to distinguish between human needs, and do not wonder if some of them are false and irrational needs and if satisfying them would harm the common good>> (translated from romanian version of text, Storck, 2009, p. 321).

<<Whatever the theological and philosophical explanations are offered, is not difficult to see that the human being is affected by disruptive tendencies. Passions attract our soul and body in opposite directions. Passion for enrichment, born out either of pure stinginess or of excessive desire to feel safe, has always been considered as one of the most powerful. To have confidence in the good intentions of individuals or in the system of mutual constraints that produce equilibrium, deemed to exist by default in the market mechanisms, means to ensure that major crises such as the one of our days, will occur more frequently. Capitalism exacerbates the disintegrative tendencies of human nature by raising them to the rank of fundamental social principles>> (translated from romanian version of text, Storck, 2009, p. 324).

Both social systems ultimately are wrong due to the "massification of man" (Hurduzeu, 2009, p 332). "Communism and neo-liberalism are perfectly compatible, both need a mass society. <<Homo Sovieticus>> is not other than <<homo economicus>> in his Bolshevik version - the massified man, the man as a mere means". Massification means the stripping of man by his divine-human qualities in order to be transformed into an abstract and interchangeable entity. Massification is inevitable in a society dominated by large-scale production and large, statist or private, organizations associated with it" (Hurduzeu, 2009, p 331). "Generally, nne could say that individualistic society (Western) of the nineteenth century arose by the disintegration of such small groups as family and church. Once these groups have lost their significance, the individual was left virtually secluded. He was thrown into a new, usually urban environment, being thus <<uprooted>>. He had no more traditional place to live, being no longer attached to a fixed geographical, or historical place, or to a line of ancestors. An individual, uprooted in such a manner can only be part of a mass" (Ellul, 1973 in Hurduzeu, 2009, p 332). Thus, through the human massification both communism and capitalism tend to invalidate his spiritual qualities.

3. Distributism - way for sustainable economic recovery

A way for sustainable economic recovery can be, especially for a country like Romania, the distributism, which promotes a *widespread productive ownership*, looking for as far as allowing the actual practice that "economic activity, all of our productive and commercial functions to be carried out by *owner-operators*" (my italics, Storck, 2009, p 322). "Marriage channels the sexual activity both for the good of the spouses and for the good of society, as it provides a stable parenting. Distributism seeks to provide such a stable framework for economic activity. True, both inhibit a certain freedom of action, but a freedom rooted in the passions of a sick human nature" (Storck, 2009, p 325).

As Ovidiu Hurduzeu pointed out, interwar Romania was one of the first countries in the world which had a thriving, distributist economy (Hurduzeu, 2009, p 334). Distributism can provide a sustainable economic recovery as it is consistent with Christian anthropology of *the person* (the person is a "Who", it should not be confused with the individual, which is only a mere interchangeably representative of species), the only anthropology that defines the man in his entirety. The chances for distributism development in Romania are enhanced by the fact that "a large part of Romania's economy is demonetized, based on *prosumer* (my italics: term with the meaning of *producer-consumer*) economic practices, despite the fact that they are not officially encouraged. Thus, as prosumers, Romanians paint their apartments themselves, build their houses, calling on the help of friends, cook their food in the household, changes useful information on the Internet and face to face, especially using <<open source>> services, drink wine made <<by parents-in-law, in country house>>, grandparents raise their grandchildren, etc.. All this produces a <<demarketing>> of products and services according to a *logic of devotedness and mutual helpfulness*" (Hurduzeu, 2009, p 351, note 31) ie according with the suitable prerequisites for preservation and cultivation of spiritual qualities of the human being.

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