Opinion of the European Economic and Social Committee on the Ethical and social dimension of European financial institutions

(2009/C 100/14)

On 25 September 2007 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on the:

Ethical and social dimension of European financial institution (own-initiative opinion).

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 2 October 2008. The rapporteur was Mr IOZIA.

At its 448th plenary session, held on 22 and 23 October 2008 (meeting of 23 October), the European Economic and Social Committee adopted the following opinion by 122 votes to 23 with 45 abstentions.

1. **Summary and recommendations**

1.1. Very recent developments in the financial crisis that were both unforeseeable and unexpected in terms of the scale of losses and of the manifest incapacity of the regulatory instruments set up to govern the market, and hence protect savers, businesses and investors, have made it necessary to hold a specific and extended debate on the content of this opinion. A succession of bankruptcies around the world and the rescue of apparently rock-solid banks and insurance companies have left millions of European citizens in a state of anxiety and concern.

1.1.1. The European Council of 15 and 16 October 2008 focused mainly on the financial crisis and expressed its resolution to act in a concerted manner to protect the European financial system and depositors. Following the Eurogroup meeting, the Council as a whole approved the principles defined during the meeting held in Paris on 12 October, which aim to preserve the system's stability, strengthen the supervision of the European financial sector, especially cross-border groups, improve the coordination of supervision at EU level, preserve the stability of the financial system, support the major financial institutions, avoid bankruptcies and protect savers' deposits.

1.1.2. In addition, the European Council called for a speedy examination of the rules on rating agencies and their supervision at European level, rules on the security of deposits, and urged Member States to ensure that earnings from stock options or the system of remuneration, especially in the financial sector, did not lead to excessive risk-taking or extreme concentration on short-term objectives.

1.1.3. The European Council underlined the need to take the necessary steps to support growth and employment and an all-encompassing reform of the international financial system based on the principles of transparency, sound banking, responsibility, integrity and world governance in order to avoid conflicts of interest.

1.1.4. The EESC has long been calling, unheeded, for steps to be taken to strengthen regulatory instruments, cooperation between supervisory authorities and the coordination and harmonisation of supervisory measures. The Committee had condemned the excessive risks being taken by the European and international banking systems, which were being bolstered by abnormal remuneration systems based on very short-term results. This had forced operators in the sector to embark on indiscriminate sales campaigns for very high-risk products.

1.1.5. Despite financial scandals, which also occurred in Europe, nothing concrete was done and it is only now that the extent of the crisis could have dramatic consequences for the entire economy, that it is realised that the promises of unrestrained and irresponsible capitalism and unbridled and limitless growth were hollow and heralded a deep crisis.

1.1.6. The model is now irrevocably in its final stages. The EESC hopes that the political institutions will at last shoulder their responsibility by:

— strengthening the scope and remit of the regulatory authorities,

— prohibiting the holding of extra-budgetary funds, loans and securities,

— increasing and standardising the activities of national regulators,
1.1.10. Hundreds of billions of euros have been mobilised to rescue banks; the EESC hopes that the same energy and promptness will be directed towards saving the business sector, especially for small and medium enterprises, by supporting demand, not least by raising salaries and pensions to avoid a recession that could soon turn into depression.

1.2. The wealth of diversity in the supply of financial services can be compared to diversity in the natural world. Protection of biodiversity is now a permanent feature of public awareness. Protecting the biodiversity of suppliers of financial services is also an element in Europe’s cultural and social heritage that must not be frittered away; on the contrary it should be sustained, given the enormous social value that it represents. The ethical and social dimension of the European financial system should be strengthened and safeguarded.

1.3. Article 2(3) of the Lisbon Treaty stipulates that ‘(The Union) shall work for the sustainable development of Europe based on balanced economic development and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall respect its rich cultural and linguistic diversity, and shall ensure that Europe’s cultural heritage is safeguarded and enhance’.

1.4. The European institutions and the Member States will have to commit themselves to fostering and sustaining the ethical and social dimension of the financial market, as well as its capacity for competition. ‘A social market economy also means a socially just economy’ (1); or ‘The social market economy allows the economic to attain its ultimate aim, which is the prosperity and well-being of all the people, protecting them from need’ (2).

1.5. In launching his proposal to set up a high-level European committee to respond to the crisis on the financial markets, identify new rules, and combat the instance finance ‘that cannot govern us’, Jacques Delors has argued that the current crisis is ‘a failure of poorly, or unregulated markets, and shows us, once more, that the financial market is not capable of self-regulation’.

1.6. The recent crisis shows that, as well as being part of Europe’s cultural and historic heritage, pluralism and biodiversity in the financial system are necessary to the existence of initiatives of ethical/social content, and are also major factors for increasing competitiveness and reducing the risk of systemic crisis in financial systems.


1.7. Economic growth beyond certain limits, and without the possibility of meeting other needs, does not increase human happiness. The dominant role of speculative finance in the real economy must be cut back and redirected towards a more reasonable conduct that is socially sustainable and ethically acceptable.

1.8. The role of ethical and socially responsible finance must therefore be promoted. The Economic and Social Committee's starting point is that in this field, an interventionist, top-down approach is out of place, since experience shows that it is right for socially- and ethically-driven initiatives to spring spontaneously from below.

1.9. An ethical dimension is not the sole preserve of any specific type of business. The documented and important role of the savings banks and various cooperative movements in promoting ethical/social initiatives and fostering the development of local systems merits particular attention. In spite of the recognition granted by the European treaty, some Member States still do not specifically acknowledge or uphold it. Efforts should be made to secure more systematic and widespread recognition of this type of social governance. The recent appeals against the cooperative movement to the European Commission promoted in Italy, Spain, France and Norway serve to highlight this need, in the absence of proper European legislation.

1.10. The EESC considers that the legislative framework is never neutral with regard to the conduct of organisations or individuals. On the basis of this observation, the EESC considers that, in a system that already encourages certain types of conduct, putting the principle that a compensation system should apply to all ethical/social initiatives on a systematic, widespread footing meets the criteria of fairness and rationality applicable to the public role in the economy and society.

1.11. Each time that a specific organisation can be shown to have given up, at least in part but on a structural and permanent basis, the principle of maximising profit in order to promote initiatives of an ethical or social nature, it should be entitled to come under tax and regulatory rules that are different from the general ones, except in the case of prudential rules, at least in part. In some Member States, ethical investors already enjoy a derogation from the banking directive: efforts should be made to extend this principle to all the Member States.

1.12. The EESC wonders if initiatives with ethical/social connotations on the part of typically profit-oriented organisations should enjoy tax or regulatory benefits. A for-profit organisation launches an initiative which is structurally separate from its typical business: there should be little doubt about the appropriateness of granting compensation compared to the usual treatment. If, on the other hand, the initiatives cannot be structurally separated from its typical business, there needs to be more debate to assess whether it is appropriate to introduce a compensation system.

1.13. Scant attention is paid to the social dimension in many market segments. CSR upholds constant and compatible growth that respects human and environmental dignity. In contrast, bonus systems tied exclusively to quantities of product sold, rather than to quality of service, are stirring up huge discontent among customers and among stressed-out workers suffering ‘budgetitis’ as a result of the unrelenting commercial pressure.

1.14. The EESC considers that the ‘proportionality principle’ should be applied in a systematic and targeted way, according to which a small intermediary carrying out simple transactions cannot be subjected to the same regulatory burden as a complex, multinational organisation, although the same market guarantees must be maintained. Rules are imposed to safeguard the market.

1.15. By ensuring that Member States do not adopt measures that would distort competition, the European Commission can help protect diversity in the supply of financial, banking and insurance services. The rules on State aid should take account of this aspect.

1.16. Casino capitalism and turbo-capitalism have targeted major industrial and financial companies that have been reduced, fragmented by a flurry of sales, to mere shadows of their former selves, and thousands of workers and their families, shareholders and the economy in general have been caught up in the 'destruction' of intrinsic value caused by these operations, which leave behind them only wreckage.

1.17. In the present opinion, the EESC restates the need to make the economy serve mankind, as argued by a great economist (1): The greater danger is in the subordination of belief to the needs of the modern industrial system. [...] These are that technology is always good; that economic growth is always good; that firms must always expand; that consumption of goods is the principal source of happiness; that idleness is wicked; and that nothing should interfere with the priority we accord to technology, growth, and increased consumption'.

2. Introduction

2.1 Ethics and the social impulse

2.1.1 Greek thought has laid down a solid foundation for western civilisation, and we can draw on this thought in order to define, firstly, the ‘ethical’ and ‘social’ concepts.

2.1.2 According to Aristotle, the purpose of ethics is man’s good, to be understood not in an abstract sense, but as the maximum of goods that can be acquired and achieved through action. The greatest good towards which individuals strive is happiness, the greatest form of happiness is to be found in acting virtuously.

2.1.3 Happiness is at the same time the best, the most beautiful and the most pleasing of things, and these qualities are not to be separated as in the inscription at Delos:

‘(a) Of all things, the most beautiful is justice;

(b) the most useful is health;

(c) but the most agreeable is the possession of the beloved object;

(d) For all these properties belong to the best activities: and these, or one – the best – of these, we identify with happiness’ (Aristotle, Nicomachaean Ethics, book I).

2.1.4 Philosophy can help us to understand how, alongside an absolute reality of ethics, relative realities can exist that satisfy those social groups, small or large, who share the same idea of happiness and join together to pursue it.

2.1.5 A plurality of ethics and values coexist and represent humanity’s rich history in all its different manifestations, including those that have recently come to be known as ‘the economics of happiness’. This, from an empirical starting-point, systematically examines the nature of happiness and possible ways of attaining it.

2.1.6 It has been demonstrated that economic growth without concomitant growth of other factors of satisfaction does not increase personal happiness. On the contrary, ‘Beyond a certain limit, economic growth does not bring greater happiness’.

2.1.7 A number of Eurostat surveys have indeed shown that while per capita income in Europe has risen without interruption over the last 25 years, levels of happiness have remained basically unchanged. Very similar results have been obtained in the United States.

2.2 The 2007–2008 financial crisis: what next?

2.2.1 The continuing turbulence that has swept the financial markets since February 2007, affecting leading financial and banking institutions, is rising to the top of the agenda for international political debate.

2.2.2 The impact of the crisis among US mortgage providers has been expanded and amplified by the fact that many debts classified as ‘subprime’ – i.e. unlikely to be paid back – have been bundled, through a securitisation process, into larger debt ‘packages’ with a total lack of transparency regarding the scale or extent of the problem. The result is that operators are left holding insecure and devalued bonds.

2.2.3 This uncertainty has triggered a further loss of confidence in the financial system, and this has had damaging consequences for businesses that rely on a constant flow of cheap credit.

2.2.4 Speculative hedge funds have been the primary victims of the financial crisis, even those operated by major trading banks. Many European banks have ended up with a large part of the US subprime debt on their books. Some famously prudent German banks have been hit particularly hard, but the infection has also spread to immune financial institutions, for whom the cost of money has rocketed. This was the cause of the Northern Rock near-crash.

2.2.5 The SOCGEN case is in part linked to the financial upheavals that began last summer, in part to a certain tendency to encourage financial market operators to take unreasonable risks which are as likely to result in high profits as in astronomical losses when there is imprudence. This has revealed the striking inadequacy of this institution’s internal control procedures and has cast doubt on the entire banking system’s practices in this area.

Ever-increasing consumption entails ever-increasing work to pay for it, and ever more time spent at work. This is at the expense of human relations – and it is exactly these relations which generate most happiness (1).

2.3.1 The continuing turbulence that has swept the financial markets since February 2007, affecting leading financial and banking institutions, is rising to the top of the agenda for international political debate.

2.3.2 The impact of the crisis among US mortgage providers has been expanded and amplified by the fact that many debts classified as ‘subprime’ – i.e. unlikely to be paid back – have been bundled, through a securitisation process, into larger debt ‘packages’ with a total lack of transparency regarding the scale or extent of the problem. The result is that operators are left holding insecure and devalued bonds.

2.3.3 This uncertainty has triggered a further loss of confidence in the financial system, and this has had damaging consequences for businesses that rely on a constant flow of cheap credit.

2.3.4 Speculative hedge funds have been the primary victims of the financial crisis, even those operated by major trading banks. Many European banks have ended up with a large part of the US subprime debt on their books. Some famously prudent German banks have been hit particularly hard, but the infection has also spread to immune financial institutions, for whom the cost of money has rocketed. This was the cause of the Northern Rock near-crash.

2.3.5 The SOCGEN case is in part linked to the financial upheavals that began last summer, in part to a certain tendency to encourage financial market operators to take unreasonable risks which are as likely to result in high profits as in astronomical losses when there is imprudence. This has revealed the striking inadequacy of this institution’s internal control procedures and has cast doubt on the entire banking system’s practices in this area.

2.2.6. This is ‘casino capitalism’, where unfortunately the ‘broken bank’ is in reality represented by savers, especially the weakest, who in one way or another have to pay a bill for which they are not responsible, workers (more than 100 000 job losses in the financial sector so far, with more to come (1)), and citizens, whose security is undermined and are left wondering if the financial system still retains any credibility.

2.2.7. Recorded losses amount to 400 billion dollars, and according to reliable estimates are set to rise to the 1 200 billion dollar mark (2). This is of course being felt by large institutional investors, such as pension funds, but the entire economic system is experiencing serious repercussions, with the rising cost and shrinking availability of money, the ensuing upward pressure on prices and inflation, and the impact in terms of slowing down the economy. This vicious circle is affecting economic activity as a whole. Recession is seen as a real threat in some Member States.

2.2.8. It is true that the European financial system has been more of a victim than a perpetrator, with a few isolated and limited exceptions. It is also true, however, that the increasing domination of the economy by finance, the pursuit of ever-more sophisticated means to multiply profit opportunities, the increasingly aggressive role of speculative funds and the arrival on the scene of sovereign funds with enormous resources, have pushed the real economy into an increasingly marginal role. It has also highlighted the weakness of national supervisory systems, the inefficiency of cooperation machinery between different authorities and the worrying role of rating agencies, including those engaged in so-called ethical rating (which have given favourable assessments of companies such as Parmalat, with its apparently exemplary code of conduct).

2.2.9. This crisis has impacted upon all market players, regardless of whether their speculative profile is high, low or non-existent. Market integration has reached such a point that no-one can say they are immune from negative repercussions. The problem is that only the downside is shared with others, while profits remain securely in the hands of speculators.

3. The European financial system

3.1. Banks

3.1.1. Banks represent the central element linking financial intermediaries. In some countries, they have a strong hold over the real economy, exerting power that is not purely economic, influencing territorial and business development, and multiplying their profit opportunities.

3.1.2. Although banking companies operate in a market context, and basically all offer the same services, ranging from the thoroughly standardised to the highly specialist, they are of very different origins that continue to shape them to this day.

3.1.3. Alongside trading banks and investment banks, occupying a predominant market position, are the savings banks of popular inspiration, that were devised to offer urban communities – and particularly their poorer members – a helping hand in times of difficulty. The first savings banks of this kind were set up in the German Empire in the early 19th century, but many were simply existing pawn brokers, created in the 15th century, operating under a new name. Today they account for approximately one third of the retail market, with 160 million customers and 980 thousand employees. Examples of socially inclusive initiatives by savings banks include ‘Die Zweite Sparkassen’ in Austria and ‘Parcours confiance’ in France.

3.1.4. A rural and artisans’ savings movement took root in some remote regions and in rural areas, based on the ideas of Friedrich Wilhelm Raiffeisen, in opposition to usury. He founded the first Darlehnkassenverein (popular bank) in 1864. The popular banks, also based on cooperative principles, sprang from the thinking of Franz Hermann Schulze-Delitzsch, who set up the first Vorschussverein (popular bank) in 1850. These experiments gave rise to the broad credit cooperative and popular bank movement, which today has a market share in the EU of more than 20 %, with more than 140 million clients, 47 million members and 730 000 employees.

3.1.5. This historical note shows that civil society has always attributed a place in the economic system to banks that is at least in part different to that of other businesses. They have always been expected to pursue ethical/social ends too, not only profit.

3.1.6. A significant aspect that the financial industry must take on board is the broader access that has opened up to financial services. While in developing countries, only 20 % of the population has access to credit, this figure rises to a reassuring 90 % in Europe. This is still not enough, however, as the 10 % left out may experience what is in fact very serious discrimination.

(2) Bulletin of the Bank of Italy No 52, April 2008.
3.2. **Insurance**

3.2.1. While the first modern banks date back to the early 15th century in Italy, with the Bank of Saint George in 1406, and some of which – such as the Monte dei Paschi established in Sienna in 1472 – still operate today, the origins of insurance go much further back. The first types of insurance date from between the 2nd and 3rd millennia BC, in China and Babylon. The Greeks and Romans were first to introduce the concepts of life and health insurance, with their ‘benevolent societies’ that paid for medical treatment, family support allowances, and even funerals. The guilds of the Middle Ages had the same purpose. The insurance contract, separate from investment, was invented in Genoa in the 14th century (1347). This was to make the fortune of Edward Lloyd who, in 1688, opened a café in Tower Street, London, frequented by shipowners, merchants and sea captains – the ideal meeting place for parties seeking to insure a vessel and its cargo and those wanting to have a financial share in the venture. The first fire insurance was introduced with Nicholas Barbon’s ‘Fire Office’ during the same period, following the disastrous Fire of London in 1666, which destroyed 13 200 houses.

3.2.2. In the wake of Lloyd’s experience (which was not technically an insurance company), the insurance model spread throughout Europe, and insurance companies began to operate. The growth of modern insurance is linked to modern probability theory, whose pioneers were Pascal, de Fermat and even Galileo. Mutual bodies began to operate in insurance circles, owned by policy underwriters rather than shareholders – in other words, by their direct clients. Cooperative insurance entities were born in the last century: in some countries they have assumed an important position on account of their ability to offer high-quality products to the market as a whole. Like cooperative banks, mutual insurers are strongly tied to local economic systems, and make a substantial contribution to their development, not least by reinvesting a significant part of their added value.

3.3. **Ethical banking and insurance**

3.3.1. In recent years, ethical banks and insurance companies have begun operating, focusing on maintaining business relations and providing financial support only for those businesses that meet strict value-based requirements, in accordance with the community from which these banks and insurance concerns have sprung. Examples of such ‘values’, which constitute a benchmark in this area, are the requirements concerning environmental sustainability, the uncompromising stance towards the arms market and a standing commitment to non-discrimination of any kind.

3.3.2. **‘Ethical’ finance and microfinance**

3.3.2.1. Ethical finance means financial activity promoting human, social and environmental initiatives in the light of an ethical and economic assessment of their impact on the environment and society, carried out with the primary objective of providing financial support for the activities concerned or even, through the microcredit instrument, for individual people.

3.3.2.2. Microfinance is made up of specialist banks for poorer population segments and dealing with small sums, which would be excluded from the conventional banking system, and is best known for its presence in the third world. It should not, however, be forgotten that western countries also have an important tradition of microsaving (while microcredit has been more marginal, with the pawn shops of old, for example): low-cost multiannual deposits are an example of microsaving.

3.3.2.3. Ethical financial business is conducted according to the following principles (1):

(a) no discrimination between recipients of investment on the grounds of sex, ethnic origin or religion, or on the grounds of wealth, considering credit in all its forms to be a human right;

(b) access to the weakest, based on the validity of forms of personal, category or community guarantees on an equal footing with wealth-based guarantees;

(c) efficiency, which in ethical financing is not defined in terms of profits, but of economically vital and socially useful activity;

(d) savers’ involvement in the choices made by the concern collecting the funds, either by indicating preferences on where funds are to be channelled to, or by democratic machinery for participation in decision-making;

(e) complete transparency and access to all information, for which reason it is necessary for savings to be nominative, and clients are entitled to be informed on how the financial institution works and of its credit and investment decisions;

(f) rejection of enrichment based purely on the possession and trading of money, so that interest rates are kept at the fairest possible rate on the basis of ethical and social, as well as economic, assessments;

(1) Participatory democracy: definitions from a study commissioned by the Lazio Region (IT) budget department.
(g) no financial relations with economic actors or activities that stand in the way of human development and contribute to the violation of basic human rights, such as the production and trading of arms, manufacturing that is seriously damaging to health and the environment, or activities based on the exploitation of children or the repression of civic freedoms.

3.3.2.4. Ethical insurance means insurance business based on the following principles (1):

(a) mutuality, understood as a return to the original meaning of insurance as a tool for solidarity between those not suffering losses and those who incur loss and need to be compensated;

(b) insurability, understood as a guarantee to all of insurance protection against possible mishaps, free of discrimination on the grounds of age, possible disability or other social difficulties;

(c) transparency, understood as contractual clarity and verifiability of the criteria used in determining premiums;

(d) generation of a benefit for the local area;

(e) equality of dignity between those entering into a contract.

3.3.3. Ethical investment

3.3.3.1. Ethical investment sets out to fund initiatives operating in the fields of the environment, sustainable development, social services, culture and international cooperation. Securities are not chosen exclusively on the basis of conventional financial criteria, but also of social responsibility criteria, such as the quality of employment relationships, respect for the environment and transparency.

4. Corporate social responsibility

4.1. The Commission's Enterprise and Social Affairs directorates are cooperating with employers' associations on some thematic areas. One of these is proper information for savers, to help them better understand the mechanisms governing the financial markets and available products. Financial education initiatives indeed represent a socially responsible way of enabling savers to avoid investing in products not suited to their expectations and risk profiles.

4.2. Stakeholder participation in CSR initiatives is as yet restricted to a very small number of businesses and, in part, to activities directed towards stakeholders as a whole. Although there is still a long way to go, entire sectors such as popular and cooperative banks, savings banks, insurance cooperatives and mutual societies intend to do even more and better.

4.3. Incentives for top managers and investment bankers are an emerging problem. They should be reviewed and brought down to a reasonable level, properly linked to company profits and results. Workers and consumers adversely affected by the financial crisis are critical of the excessive income of high-level managers, which contributes to their difficulties. These incomes often remain extremely high regardless of whether results are successful or otherwise.

4.4. The new management models for financial companies, which geared to maximising very short-term profits partly due to quarterly performance assessments, are spurring sometimes irresponsible conduct, as seen in recent cases of financial scandal in several Member States. In contrast, corporate social responsibility seeks to make profits stable and sustainable over time, by drawing on companies' tangible and intangible assets, which in financial companies are often represented by their employees and their trust-based relationships with clients.

4.5. The EESC advocates widespread adoption of CSR—based codes of conduct. It is crucial that these codes can be and are verified in order to prevent the repetition of cases whereby excellent codes of conduct are subscribed to and publicised by managers who go on to swindle hundreds of thousands of savers, as has occurred in the most serious financial scandals of recent years (2).

5. Local banks and the development of local economies and SMEs

5.1. Different types of banks are competing on the same market to offer substantially the same type of services. Economic efficiency is a requirement for all, whether public limited liability companies, private banks geared principally to shareholder premiums, or other companies geared more to the economic and social development of their catchment areas, with a special focus on the issue of access to credit, to a less affluent clientele, to boosting SMEs, and to promoting the more vulnerable social groups and remote regions.

(1) Idem.

(2) Such individuals have been awarded honorary degrees on account of their local, national and international commitment to developing business with courage, tenacity, inventiveness, outstanding professional preparation and a clear vision of things, combined with an ethical approach refuting those few who argue that ethics and economics are a contradiction in terms.
5.2. It would appear that the local economy's growth rate rises significantly in those areas where the local banking system is most developed. It should also be stressed that in many countries, local banks mostly take the form of savings banks and cooperative societies, which reinvest a significant part of their profits in their local area.

5.3. The banking system has a dual responsibility: at company level, to enhance the business efficiency of credit enterprises, measured in terms not only of profitability, but also of innovative capacity, of the quality of the human capital used; and at territorial level, the responsibility to contribute to local development, to be measured in terms not only of the volume of credit granted, but also the capacity to invest in project selection and in assessing the potential of entrepreneurs and enterprises. This may be defined as territorial efficiency. Business efficiency should be put at the service of territorial efficiency: there is no point in having efficient banks if they make no contribution to local development (1).

5.4. SMEs have found a useful tool for facilitating access to credit on the part of their associates, through guarantee and surety societies, which also exist at European level. They facilitate investment credit for small and medium sized enterprises that cannot provide the personal guarantees required by financiers in order to build up a stable banking relationship.

6. The role of policy makers

6.1. The EESC's starting points is that in this field, an interventionist, top-down approach is out of place, since experience shows that it is right for socially- and ethically-driven initiatives to spring spontaneously from below. Any 'active' intervention could stifle divert the spontaneous spirit that is the primary safeguard of biodiversity in the economic and financial system. At the same time, however, the EESC considers that policy makers must avoid acting in such a way as to hamper existing initiatives or the spontaneous emergence of new ones.

6.2. The EESC wonders if initiatives with ethical/social connotations on the part of typically profit-oriented organisations should enjoy tax or regulatory benefits. Two quite distinct situations must be distinguished here.

6.2.1. A for-profit organisation launches an initiative which is structurally separate from its typical business (e.g. the ‘Point Passerelle’ operation by the Crédit Agricole). In this case, there should be little doubt about the appropriateness of granting compensation compared to the usual treatment.

6.2.2. A for-profit organisation launches initiatives that cannot be structurally separated from its typical business. There has been much debate about whether it is appropriate to introduce a compensation system under these circumstances. The advocates of tax, financial or regulatory compensation argue that the positive spin-off of the initiative justifies special treatment. Others, however, oppose this view, on the basis of two main considerations: only initiatives carried out under an autonomous economic balance (i.e. in which sufficient profit can be ensured) can continue over time. Moreover, genuine ethical/social action should be on a disinterested basis, not prompted by regulatory, financial or tax advantages. Ethical/social action is in fact 'self-rewarding': the simple fact of doing good ought to satisfy its author.

6.2.3. In the EESC's view compensation for ethical/social initiatives is already recognised practice in all systems. Tax law permits the deduction of expenses only where they are necessarily incurred in generating the income. This principle (within certain limits and conditions, of course) does not apply when expenses consist of donations to charitably or socially useful bodies. In this case, deduction from taxable income is allowed, even though the expenditure is not necessary to production.

6.2.4. The Committee also considers that the legislative framework is never neutral with regard to the conduct of organisations and individuals. On the basis of this observation, the EESC considers that, in a system that already encourages certain types of conduct, putting the principle that a compensation system should apply to all ethical/social initiatives on a systematic, widespread footing meets the criteria of fairness and rationality applicable to the public role in the economy and society.

6.2.5. The principle proposed by the EESC entails the benefit of compensation being attached not directly to the institutions, but rather to their ethical/social initiatives. The EESC does not think that this is, in itself, improper: ethics and economics cannot be forced apart, requiring that only initiatives that do not provide any economic benefit to their authors may be deemed to be genuinely ethical. This would ultimately lead to ethical initiatives being identified only with charitable donations.

7. Financial compensation and taxation

7.1. The EESC welcomes initiatives in this direction. This approach can also be justified on economic grounds. For a number of reasons, arising from political choices, public financial constraints or economy drives, the 'social' state has been eroded over the last 10-20 years. Economic growth cannot be relied upon as the sole means of preventing an excessive fall in people's well-being: room must be provide for bottom-up initiatives.

(1) P. Alessandri, Le banche tra efficienza gestionale ed efficienza territoriale: alcune riflessioni (Banks between business efficiency and territorial efficiency: some thoughts), 2003.
7.2. An example of regulation that favours public-private integration in order to continue ensuring high welfare state levels is provided by the way the Netherlands has structured the health insurance sector. While on the one hand insurers are obliged to insure all citizens, on the other they have access to a public compensation system for the greater risks they have to take on. The Dutch market has also taken some exemplary initiatives to facilitate access to life insurance for people who are HIV positive.

7.3. Belgium offers an interesting example of financial compensation to facilitate access to basic financial services. An inter-bank fund compensates intermediaries who provide easier access to services: in practice this means that the more restrictive intermediaries are net contributors to the fund, while their more open counterparts are net beneficiaries.

7.4. Turning to tax concessions, a widespread system of favouring cooperatives that pursue mutual-based ends is already in existence.

7.5. One example of legislation according tax benefits to organisations that have explicitly social purposes is that in Italy concerning non-profit organisations of social value.

8. Regulation

8.1. Rules impose costs and constraints that are a burden on the work of businesses and intermediaries. Interventions over the last 20 years have been geared to providing a level playing field. By putting all comparable actors (e.g. banks, insurance companies, etc.) on the same footing, rules have served as a tool to boost competition and economic efficiency. If this principle is applied too rigidly and without the necessary corrections, it becomes an insurmountable obstacle to the conception and survival of ethical and social initiatives. This risk can be minimised through the systematic and targeted application of the 'proportionality principle', according to which a small intermediary carrying out simple transactions cannot be subjected to the same regulatory burden as a complex, multinational organisation.

8.2. Each time that a specific organisation can be shown to have given up, at least in part but on a structural and permanent basis, the principle of maximising profit in order to promote initiatives of an ethical or social nature, it should be entitled to come under tax and regulatory rules that are different from the general ones, at least in part. In some Member States, ethical investors already enjoy a derogation from the banking directive: efforts should be made to extend this principle to all the Member States.

8.3. In spite of the recognition granted by the European treaty, some Member States still do not specifically acknowledge or uphold it. Efforts should be made to secure more systematic and widespread recognition of this method of societal governance.

8.4. By ensuring that Member States do not adopt measures that would distort competition, the European Commission can help protect diversity in the supply of financial, banking and insurance services. The rules on State aid should take account of this aspect.


The President
of the European Economic and Social Committee
Mario Sepi