

CAUX ROUND TABLE

**“Arising From the Ashes: Building a New Global Capitalism”**  
**Proceedings of the**  
**Twenty-fourth Annual Global Dialogue of**  
**The Caux Round Table**  
**Mountain House**  
**Caux, Switzerland**  
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**Welcome Statement**

*[The Rt Hon. The Lord Daniel Brennan QC](#)*

*The Lord Brennan, chair of the Caux Round Table (CRT) [Global Governing Board](#), convened the Global Dialogue (GD) by addressing the global economic crisis, which he attributed to three causes:*

- (a) bad management in banks, companies, and regulatory agencies;*
- (b) speculation; and*
- (c) greed.*

*He noted the ethical dimension of economic life and invited the group to reflect on the theories that would guide the world in the wake of the crisis. He noted three overlapping narratives-economic, social, and moral-in the United Kingdom for interpreting the crisis and the future:*

*a. The economic narrative*

Prudential risk management must be long term and include an ethical dimension beyond traditional reductionistic analytics. The idea of “too big to fail” means, “I do what I want until you stop me”; this is arrogant. The British government just issued a detailed, but uninspired white paper on the topic.

*b. The social narrative*

People in Great Britain assume that directors can qualify merely through experience and tenure; there is scant attention to education. We need a more intellectually sophisticated approach for construing social capital and recognizing conceptual distinctions and moral priorities for human, environmental, and financial capital. The European Union is keen to assert greater influence through regulatory reform in corporate governance standards. How might we create local and professional-based institutes for business ethics to preempt regulation? Effective risk management itself is an ethical duty.

*c. The moral narrative*

The Archbishop of Canterbury issued a [statement](#) that society needs to approach the crisis with truthfulness, solidarity, and stewardship, particularly to promote the common good.

A question for the CRT is whether capitalism will survive ascendant nonwestern traditions, e.g., India and China. The media point to threats to global integration. How might we respond?

In March 2009, the CRT issued a positive response to promote improved practices, a [Seven Point Reform Plan to Restore Trust in Business and in the Global Financial System](#). One notion that occurred to us was a Responsible Business Act, a statement from Congress about public expectations of business through a discipline of public registration to improve business' reputation.

Pope Benedict XVI issued his social encyclical, [Caritas in Veritate](#), days before the GD, arguing that there is no just and moral system without just and moral people.

### **Keynes and the Economic Crisis**

[The Rt Hon. The Lord Robert Skidelsky](#)

*The Lord Skidelsky, the foremost biographer of [John Maynard Keynes](#) (JMK),<sup>1</sup> addressed the GD regarding the economic crisis and problems with capitalism. He noted that JMK has much to say about the economic and ethical dimensions of the crisis.*

#### *a. Economic dimensions*

The crisis showed that the efficient market hypothesis is wrong. Markets *can* fail. The banking and world monetary systems require reform. To ask what is wrong, we need to contrast two theories.

First, mainstream economics subscribes to the *theory of almost continuous market clearing, flexibility, and optimum employment* of resources through the pricing system. The effectiveness of this system depends on the traditional conditions for the free market, including perfect information, the absence of barriers to entry and exit, profit maximization by producers, preference maximization by consumers, atomistic action by economic agents, and the sovereignty of economic agents.

Seventy years ago, JMK pointed out the fallacy of the [efficient market hypothesis](#) through the logical [fallacy of composition](#). During recessions, people spend less, exacerbating the crisis. He conceived the *theory of aggregate demand* to counter this. The current crisis is an effect of public- and private-sector leaders forgetting JMK's theory.

The bank bailouts and stimulus packages have helped to respond to the crisis according to the de Larosière [Report of the High-Level Group on Financial Supervision in the EU](#) and analyses by the U.S. Department of the Treasury. As part of remediation and reform, the latter has said that loan originators should retain an interest in mortgages and not allow them to be as liquid as before.

The rejection thus far of a return to [Glass-Steagall](#) standards has been most disappointing to reformers. The logic behind the Glass-Steagall segregation of banking from investment banking,

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<sup>1</sup> *John Maynard Keynes: Volume 1: Hopes Betrayed 1883-1920* (New York: Penguin Books, 1983); *John Maynard Keynes: Volume 2: The Economist as Savior, 1920-1937* (New York: Viking Adult, 1993); *John Maynard Keynes, Vol. 3: Fighting for Freedom, 1937-1946* (New York: Viking Adult, 2001); and *Keynes: The Return of the Master* (New York: Public Affairs, 2009).

investment management, and other financial services was clear. Banks with taxpayer-insured funds should not speculate, due to [moral hazard](#). The opportunity for banks to cheat on this is almost limitless. This practice is “regulatory arbitrage,” and is particularly prevalent when the regulatory requirements are unequal across jurisdictions. In the United States, it has been a longstanding problem as financial institutions can choose their own regulator from among five principal options. AIG did this by purchasing a small savings and loan and then electing regulation by the Office of Thrift Supervision, an agency whose resources for oversight were comparatively modest.

The faith of many in mathematical risk-management models persists. This uncritical approach ignores JMK’s fundamental distinction between *risk* and *uncertainty*. He argued that it is impossible to (1) impound all risks into formulas, (2) calculate all risks, and (3) hedge against all risks.

#### *b. Ethical dimensions*

Keynes offers two judgments about what is wrong with capitalism:

- (1) it promotes *greedy behavior* and requires ethical standards and regulatory intervention; and
- (2) it sets no limits on the scale, scope, or purpose for accumulating wealth.

Both judgments settle on a single motivational aspect of capitalism: *greed*. The desire for [intrinsic \(and extrinsic\) goods](#) makes people strive for riches, regardless of the object, but it can lead people to excess. However, this judgment might be unfair. The capitalist system is a *tool*. One might argue that society *creates* and *manifests* such motives and that capitalism merely *reflects* them.

One response is that the pursuit of wealth itself undermines the moral foundations of societies. It imposes a logical priority for efficiency and gainfulness on economic (and noneconomic) activities. This can crowd out competing, even longstanding motivational frameworks that construe benefits and costs of behaviors in extra-economic terms. We used to be more practiced at holistic and robust evaluations of benefits and costs of practices, and ready to raise noneconomic objections to economic proposals, e.g., social costs. Beginning with the Reagan administration, the calculation of economic costs and benefits for all new regulatory initiatives accelerated a reductionistic economic approach to public policy, and this affected the public philosophy behind this policy.

We can identify three main points in JMK’s thought regarding the ethical dimensions of capitalism:

- (1) the relationship between wealth and goodness;
- (2) the psychology of the love for money; and
- (3) the role of justice in economics, including JMK’s relationship to Christianity.

#### 1. The Relationship Between Wealth and Goodness

Keynes’s philosophical education preceded the ascent of [logical positivism](#). He followed a teleological framework, though without reference to theological ends, in keeping with his atheistic beliefs. The consequentialist philosopher, [G. E. Moore](#), influenced him. Moore distinguished between ethics and morals. For him the ethical question was what is good, i.e., what things should

exist for their own sake? The moral question was how should one act? One only can respond to the moral question by reference to the ethical. Today we routinely discuss the moral question, but we do not, on the whole, ask the ethical question, what is good.

Moore’s short list of intrinsic goods excluded justice. Keynes added love for knowledge, being in love, and esthetic emotions, including tragedy, e.g., vicariously through art. He rejected a preference approach to goods in favor of intuition, though agreement on defining goods was impossible. Moore believed in *maximizing* goodness and JMK believed that wealth enabled this.

## 2. Love for Money

The conflict was between being good and doing good. Keynes asked what ethical value one could ascribe to a focus on making money. He ranked even instrumental money making beneath public service. Society esteems the love for money over the love for goodness ([1 Tim 6:10](#)). He followed Weber in cautioning about the risk that the former could displace the latter. In JMK’s day, neither warrior nor priest had left the scene and manufacturing was the main form of economic activity.

Love for money involved (1) the *objectless pursuit* of money and (2) *miserly hoarding* of it. The second is a subset of the first and represents a brake on economic activity. Keynes believed that the first was morally inefficient and the second economically inefficient. He believed that money was an extrinsic good. Capitalism generated money rather than goods and inverted means and ends.

In unpublished papers, JMK wrote about the fetish of cheapness and how standardization had raised the price of idiosyncrasy. He adjudged variety an intrinsic good; it is not good to commodify everything. An expansive economic scientism tends to crowd out other forms of meaning and to incapacitate mature moral reflection and judgment, contemporaneously and longitudinally.

After a 1925 visit to the Soviet Union, JMK wondered whether it had found the antidote in setting aside the singular pursuit of money, a social rather than an economic feature of Bolshevism. He reconsidered after a 1928 visit, concluding that the costs were too high if nothing worked.

Moreover, there are economic consequences for capitalism in the effects of the inordinate attachment to money on children. Even modest economic growth would lead to exponential increases in living standards. With economic development “solved,” people would face the challenge of shedding pathological purposelessness. Love for money would become an objectionable pathology for psychiatrists to remedy.

Keynes believed that good states of mind depended on people not having to work for a living. This arose from the aristocratic ideal in the Greeks and the Christian aspiration to regain paradise. Keynes looked forward to the satiation of wants (cf. [Jn 4:3-30](#)). He saw this as an ethical terminus. When we have satisfied economic needs, what remains is to improve oneself ethically.

An economy devoted to producing goods may have a natural terminus of satiation. However, one devoted to producing money would not. Desires and dissatisfaction would be endless.

The coherence for which JMK strives is only partially successful. In deference to Moore’s philosophical approach, JMK treats capitalism instrumentally. This leads him to understate the ethical possibilities for capitalism itself. He thought that, as we get richer, we would devote ourselves more to noneconomic pursuits. However, there has been little indication of this, particularly in the context of global integration.

### 3. The Role of Justice in Economics, including Keynes’s Relationship to Christianity

Justice was not an end in Moore’s philosophy. Keynes revived the long-dormant idea of the just price. Yet the idea of just bargains remains, as outrage over AIG bonuses demonstrated. Large compensation per se does not arouse resentment, e.g., for entertainers or athletes, or for luck, e.g., lottery winners. The anger reflects public harm. Today’s concern is with *relative* pay.

Keynes’s concern for justice in exchange revived the medieval notion of usury. Interest today rewards no risk for scarcity, unlike for land. He used the term, [“usury,”](#) to condemn purely financial markets. It was usury to extract from a borrower an amount greater than the sacrifice of the lender, in the context of his or her liquidity preferences, for lending versus saving. Keynes relied on policy to keep rates low as his way of applying medieval usury laws.

#### Keynes and Christianity

Many of these speculations were fragments of a dissolving religious tradition. Keynes pointed out that most 18<sup>th</sup> century writers on economics were clerics. He thought religious dogma a domain of irrationality and emphasized the relationship between reason and truth. As he matured, he changed this view. He had ignored the irrational strains of wickedness in people and the role of rules and conventions to constrain them. Even though his objections to Christianity fell away, he remained a humanist, writing to Virginia Woolf: “We destroyed Christianity even as we enjoyed its benefits.”

People have much spiritual potential. Concerns for environmental sustainability might be one channel for this, by teaching reverence for creation and the reality of limitation. There are various approaches that might signal connections between creation and normative limits to growth. Without a theological context, principled arguments for limitations on growth become difficult.

Economics must shift from its Newtonian foundation, a joint project of scientists and theologians that conveyed a notion of equilibrium. We learn to adjust to economic shocks. There must be a different kind of discourse and training in economics, available to people only after age 25.

Greater wealth redistribution also could enhance social stability, certainly in the United Kingdom.

I am suspicious of behavioral economics, e.g., by inferring activity of the mind by analyzing the brain. It can diminish the capacity for freedom.

Nonwestern normative traditions can illuminate reflections on the meaning of life and economics. Although Confucianism never was meant for export, it resonates with Western concepts of virtue.

## **Introduction and Facilitation**

*Mr. Morihisa Kaneko*

At the first CRT meeting in 1986, I experienced heaven and hell in tumultuous discussions about leadership and ethics. There were misunderstandings between Japanese, American, and European participants. After the meeting almost disintegrated, and the Japanese threatened to leave, participants reconciled and carried on a productive conversation that presaged the first CRT principles in 1994.

Corporate responsibility<sup>2</sup> (CR) has gone through three phases since 1986, with parallels in the development of the CRT:

- (1) a traditional approach to CR, from 1986 to 1992;
- (2) revision and refinement on behalf of society from 1992 to 2000; and
- (3) the age of corruption, from 2000 to the present.

How can we adhere to corporate codes of conduct? At the 2008 GD, the question was how the CRT could contribute to responses to the global crisis. Global Governing Board member Noel Purcell has been leading such efforts.

## **The Caux Round Table Response to the Global Economic Crisis**

*Dr. Noel Purcell*

Here is a summary of CRT efforts to respond to the global economic crisis.

In the middle of 2008, the Global Governing Board embarked on a review of the CRT’s mission and vision. The core purpose to which we agreed was to advance moral capitalism for a better world. The vision was to achieve rising living standards, social justice, and human dignity for all.

We took this vision and mission and the organization’s purpose to the GD in 2008 in Madrid, where they received vigorous endorsement and this focus has guided our work over the previous year.

After September 2008, the crisis deepened. The GD agreed on a communiqué, [\*Global Prosperity at Risk: The Current Crisis and the Responsible Way Forward\*](#), that affirmed that the CRT Principles for Responsible Business remained as relevant as ever in responding to the crisis.

Recognizing that we had to remain responsive to changing global conditions, we fundamentally reviewed the CRT principles and published [\*revised principles\*](#) in March 2009. I recently met in Australia with the head of the [\*United Nations Global Compact\*](#) and we found common ground.

The year’s most important initiative was a statement ahead of the London G-8 summit in April 2009, a [\*Seven Point Reform Plan to Restore Trust in Business and in the Global Financial System\*](#):

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<sup>2</sup> The concept of “corporate social responsibility” has evolved from the 1960s to the millennial expression, “corporate responsibility,” with the collateral principle of “corporate citizenship.” To account for a broader scope of influential institutions, including governmental and nongovernmental organizations, one can refer to “organizational responsibility.”

- (1) require directors to consider interests beyond shareholders, which may affect the company’s success, by codifying the principle of “*enlightened shareholder value*” in company law;
- (2) require minimum standards of corporate governance knowledge and competency for directors;
- (3) require corporate boards to have a dedicated committee responsible for risk oversight across the full spectrum of risks-financial, governance, social, environmental;
- (4) regulate executive remuneration structures to ensure they are consistent with prudent risk management, align with long-term wealth creation, and do not reward poor performance;
- (5) implement stronger and globally coordinated financial and banking regulatory reforms to prevent systemic risk build-up or market manipulation;
- (6) regulate all financial markets instruments and investment activities that materially impact on financial system stability and on superannuation and pension system viability; and
- (7) reform and adequately resource the IMF and other multilateral institutions to ensure they are effective forces for economic and social justice globally.

Another initiative was to develop a CRT risk-management tool, including on-line versions of [Arcturus](#) tools. There was significant progress in [Germany](#) on this over the past year.

There also was a significant revision to the [CRT Web site](#) in March 2009, with significant use of social media, including [Facebook](#), [YouTube](#), [LinkedIn](#), [Flickr](#), and [Twitter](#).

The past year has been productive and positive, but CRT initiatives have remained marginal vis-à-vis the corporate world. The Global Governing Board is enhancing outreach to corporate leaders. The organization always is at key transition points and this is healthy. We’ll continue these measures this year to focus our message and enhance outreach efforts. This will require more financial development.

The Lord Brennan commented that, in the United States and the United Kingdom, the CRT has made important contacts with legislative leaders. [Politicians want to do something](#).

### **Who Should Provide Public Goods: Markets or Governments?**

*The Hon. Claire Chiang*

The discussion included reflections on the need for public goods to promote the common good locally and globally. A critical issue was the role that public and private institutions can play in promoting and providing such goods, e.g., energy, commodities, services, and even regulatory oversight.

The ascendant view in the mid-20th century was that the public sector had a special competency for providing such goods due to its mandate to promote commutative, distributive, and social justice and a flourishing community on behalf of all. This view was strong in communitarian public philosophies of Western Europe. From the late 1970s until 2007, an alternative view gained currency in many countries, especially the United States and the United Kingdom, that the private sector was more qualified to provide many public goods, due to the allocative efficiencies of the pricing mechanism and the qualities of leadership, entrepreneurship, accountability, and responsibility that participation in the market promoted. Markets themselves rose in prominence as public goods, particularly as some social sectors grew in affluence, and popular participation in markets for technology and capital grew.

The global economic crisis that erupted in 2008 rekindled this debate around the world, including at the GD, with regard to measures for dealing with the emergency in the short term and a hopeful path for a transformative public philosophy and policies to promote a new, sustainable equilibrium for economic development and principled and accountable political governance for the 21<sup>st</sup> century.

Economists define [public goods](#) according to elements of (1) joint provision and (2) nonexcludibility. The first refers to the feature by which providing a good to one means providing it to all. The second refers to the feature by which there is no practicable way to exclude people from enjoying the benefits of a good once one person enjoys it. The provider of a public good thus could be a public *or* a private entity. As long as the elements of joint provision and nonexcludibility are present, the good is “public,” even if a private entity, such as a corporation, provides it.

The perennial question is, how society can maximize its benefits from public goods while avoiding the “free rider problem,” i.e., how people of good will can organize their affairs to promote and deliver socially beneficial goods, services, and practices efficiently and effectively. There are many levels of practical response to the question of public goods, from the role for individual conscience to organizational compliance and ethics programs, professional associations, chambers of commerce and business associations, and regional, national, and transnational regulatory regimes.

Market forces can exert powerful regulatory influences and promote beneficial goods and practices in and around these levels of response, e.g., in markets for human, environmental, and financial capital.

Each of these institutional responses reveals strengths and limits in its practical effectiveness. Both markets and (quasi-)legal regulatory regimes can be blunt instruments for providing public goods subject to infirmities outside their narrow regions of competency, e.g., the inertia of bureaucratic regulatory inefficiency in government and failures in signaling and pricing mechanisms and in social and psychological dysfunctions of markets. Both governments and markets are susceptible to myopia, indifference, and ineffectiveness in providing public goods and meeting social needs.

The current global economic crisis results from vivid and spectacular failures in government regulation, professional responsibility, and market restraint. Governments in the United States and elsewhere incrementally weakened regulatory frameworks and enforcement practices for sequestering and minimizing risk, e.g., the United States [Private Securities Litigation Reform Act of 1995](#), the [Financial Services Modernization Act of 1999](#), and the [Commodity Futures Modernization Act of 2000](#). Accountants, attorneys, bankers, financial analysts at ratings agencies and investment banks, portfolio managers, journalists, and others failed to exercise due professional judgment. Meanwhile, on a broader scale, the [adverse selection](#) by which many market actors unknowingly-*or negligently*-assumed tremendous risks and the moral hazard by which they succumbed to a dearth of incentives to *minimize* risk, created a corrosive environment for capital formation that led to the near collapse of global capital markets and endangered the world economy.

The discussion at the GD included sober reflection on many indicators of these regulatory dysfunctions. Steve Young commented on the demise of print media in the United States over the past several years, a trend the crisis has accelerated as newspapers and magazines have struggled to

remain financially viable channels for investigation, critique, and education to inform citizens. Heribert Schmitz argued that the path of privatization, particularly of backbone economic sectors, over the previous generation had gone too far, replacing government monopolies with private ones through unbridled concentrations of power in private hands; he argued for a principled approach to privatization, limiting it to situations where the regulatory benefits of competition would endure.

Raymond Baker recommended that we examine critically the putative exigency that the economic crisis has imposed on policy options, viz., the premise that some private organizations are “too big to fail.” Rather than limiting our choices *ex post facto* during a crisis, we should take a long-term view, and restrict private organizations from getting too big in the first place. *If an organization is too big to fail, it is too big to exist.* The policy question is how to formulate criteria for what is too big and how to restrict growth in a principled way that will not stifle the enlargement of human, environmental, and financial capital. How can society promote quality growth?

One hint for doing this arose in discussing the United Kingdom’s HM Revenue & Customs initiative to classify banks by risk, especially by standards and practices of corporate governance. A proposed regulatory regime for financial institutions includes a principle that tax policy should reflect underlying economics and tax compliance should follow the spirit as well as the letter of the law.

Eschewing tax *avoidance* as well as tax *evasion* evinces a more sophisticated approach to engaging the aforementioned multiple levels of regulatory response to promote public goods, in this case the public goods of efficient, effective, and transparent capital markets; prudent governance; public fiscal stewardship; and respect for the rule of law. Such institutionally pluralistic approaches that engage these multiple levels are more likely to avoid the debilitating effects of narrow, fundamentalistic solutions that uncritically impute salvific roles for government or markets.

### **“Plea for a World in Balance: The Need for an Ecosocial Market Economy”**

*Prof. Heribert Schmitz*

Heribert Schmitz shared that, as a result of his business experience, and continuing research, discussion, and reflection, his views about the scale and scope for CR had evolved, particularly since his leadership at Hewlett-Packard. He argued for a more comprehensive approach that can respond substantively to global crises of financial markets and economic life, climate change, gross disparities in wealth, and irresponsible use of nonrenewable resources.

Heribert discussed dysfunctional global trends, including excessive and unequal consumer spending, the imposition of austere economic development and recovery policies by intergovernmental organizations, imprudent corporate governance, tax competition and transfer pricing, inequitable healthcare, persistent reliance on nonrenewable resources, and pollution of the environment.

Heribert argued that, in responding to these complex and pervasive dysfunctions, it is not enough to enhance ethical business practices. Business and professional leaders routinely fail to foster or follow ethical principles, instead seeking minimalist legal compliance. The relationships between

corporations and their stakeholders are important and the scale and scope for the risks stakeholders face justify greater regulatory responses at all institutional levels to manage these risks optimally.

The question is what sort of public philosophy can help underwrite public policies that will promote intellectually sophisticated and practically robust and effective responses to these global crises.

Marxian thought and liberal, including neoliberal, economic and political thought have offered two prominent approaches on the world stage for about 150 years. However, attempts to practice each approach have revealed serious social and economic costs that endanger basic human rights and global prosperity. The question is whether a third way is possible.

The discussion focused on one such approach that Heribert shared, an [“ecosocial market economic”](#) framework that the Austrian politician, [Josef Riegler](#), had developed in the 1980s, and that had become the focus of discussion by politicians, scholars, executives, and others at Ecosocial Fora in Europe. The concept of an ecosocial-or social-market economy is more congenial to German and Western European sensibilities than “moral capitalism,” because “capitalism” carries a pejorative connotation in parts of Western Europe, particularly in the wake of the global economic crisis.

Heribert reported that the [Ecosocial Forum Germany](#) had issued a draft proposal for a new economic model, with the following elements:

- (1) creation of a new value system, in which individual dignity is at the core and where human rights in the [Charter of the United Nations](#) find worldwide acceptance and enforcement;
- (2) agreement about a new global economy with a basis on ecological and social minimum standards is enforceable through sanctions;
- (3) implementation of objectives of the [Intergovernmental Panel on Climate Change](#) for reduction of greenhouse gas emissions;
- (4) real implementation of the [Millennium Development Goals](#) of the United Nations by 2015;
- (5) establishment of a worldwide order for global financial markets in which financial institutions finance the real economy rather than foster a sequestered financial business;
- (6) measures to limit the size of corporations so that a potential insolvency does not risk structural harm to the economy and compel a governmental bailout;
- (7) international harmonization of measures for reporting and remitting tax, including information sharing, and establishment of a reasonable range for tax rates to minimize tax havens;
- (8) privatization policies that result in competitive markets and that do not exchange public monopolies for private ones;
- (9) a fair global partnership, ensuring effective and transparent application of financial resources to the underlying operational economy; and
- (10) definition and implementation of new design and production standards to ensure that products are safe for people and the environment and do not consume nonrenewable resources.

Doran Hunter commented that when reflecting on such principles and social questions, the transition to action will benefit from a strategic plan with milestones and measurable results.

A complementary resource to support the ecosocial market economic approach is the tradition of [Catholic social thought](#), a modern element of the Catholic intellectual tradition that arose in the late 19<sup>th</sup> century. Catholic social thought offers a religiously inspired public policy approach that situates itself between Marxian and liberal traditions and that emphasizes a balance between a communal ethos and personal responsibility as complementary elements for promoting the common good. The substantive principles of *subsidiarity* (Pius XI), *socialization* (John XXIII), and *solidarity* (John Paul II) have guided the development of this tradition as a framework for principled governance of institutions for responding to social challenges. The most recent statement of this tradition is the July 2009 encyclical, [Caritas in Veritate](#), of Benedict XVI. This work recollects these principles, particularly John XXIII’s calls for global responses that are proportionate to the sobering scale and scope of the world’s social, economic, political, environmental, and medical afflictions.

### **“Shaping New Global Institutions I: Institutions That Shape Character, Morals, and Ethical Behavior”**

*De Heer Maarten de Pous*

Maarten de Pous led a discussion about roles of institutions in forming or deforming people’s character and influencing their behavior by aligning or misaligning incentives. People ultimately resemble institutions in which they live, work, and play, for better or worse. Either they comply with the principles, rules, and incentives that prevail in institutions or they leave, voluntarily or involuntarily.

To kindle the discussion, Maarten reminded the group that Caux and the Initiatives of Change are synonymous with several propositions:

- (1) you cannot make a good omelette out of bad eggs;
- (2) the problems on the table are nothing compared to the problems sitting at the table;
- (3) when I point my finger at my neighbor, there are three more pointing back at me;
- (4) when you want to change the world, the best place to start is with yourself; and
- (5) there is enough in the world to meet everyone’s need, but not to satisfy everyone’s greed.

Maarten reminded us of counsel from CRT World Advisory Council member, Dr. Herman H. F. Wijffels, that morality and ethics require definitions proper to their context for application. Humanity is heading for the precipice on issues of climate change, poverty, and health care. People should transcend ethical frameworks that privilege human needs and interests and that instrumentalize everything else. Such anthropocentrism lies at the root of present global problems.

Instead, we should commit to the premise of the human person and community as integrated into the world, i.e., with a source, summit, destiny, and vocation at one with the natural world.

In this process of reflection, we must not deny the past, but should discern both the revelatory insights and the difference that people have shown to one another and the natural environment. We must recognize the consolations and desolations of our past and transcend them by making new history with new decisions out of the cumulative wisdom of experience as individuals and a species.

Maarten invited the group to reflect on two questions:

- (1) what issues concern me most regarding the world in which our grandchildren will grow up; and
- (2) what are the most important personal principles to help global institutions to be effective?

The discussion was sincere, sober, and thoughtful, with numerous contributions from the group.

Raymond Baker expressed concern about global income disparities as an impediment to the proportionality necessary for functional capitalism and the need for a transition from raw utilitarian practices of maximizing preferences and profits to an embrace of a robust sense of justice in its commutative, distributive, and social dimensions.

Michael Kwee expressed concern for a healthy environment and the need for an enlightened sense of politeness, decorum, and courtesy within and between societies.

Frank Straub expressed concern that his grandchildren not have a lower quality of life than he and the need for robust CR and multilateral cooperation to minimize such risks.

Antoine Frem expressed concern for a clean and safe environment, protection for human rights, and avoiding crises that create transnational refugees; and the importance of promoting the common good and recognizing human rights.

David Grayson expressed concern for avoiding misunderstandings and clashes among civilizations; and the need to apply the golden rule-the common theme of great religious traditions-as well as to enlarge the human capacity to thrive on complexity and make connections.

Bruce McEver quoted Gandhi that earth can satisfy everyone’s need, but not everyone’s greed.

Gerald McGhie expressed concern for people’s growth in the ability to discern and deal with ethical dilemmas; and the need for greater respect for the rule of law and the process for discerning the source and meaning of law, without falling prey to debilitating and parochial absolutisms.

Jean-Pierre Méan expressed concern for environmental safety and inequalities in income and wealth; and the need for truthfulness and transparency, including the elimination of tax havens and corruption, and affirmative practical initiatives to break down barriers between people.

Karel Noordzy expressed concern for decency in day-to-day behavior and the capacity to find, enjoy, and honor places of silence, especially in nature; and the need for integrity, responsibility, care, and self-esteem to live in a very changeable and uncertain world.

Slawomir Nowotny expressed concern that a superficial notion of personal success might supersede substantive personal virtue; and for the need for personal responsibility as an internal compass with a shared social dimension in terms of the ethical character of people’s actions.

John Pickering expressed concern for environmental degradation and accelerated depletion of the ecosphere, and referred to [Sir Martin Reese’s](#) book, *Is This Our Final Century?*

Claire Chiang expressed concern about the effects of the scale and scope for China’s continuing development, e.g., that China adds two Bostons’ worth of housing each month; that, at the end of 2008, it had 60,000 kilometers of highways (as many as Canada, France, and Germany combined); and that, by 2050, over 500 million Chinese will live in cities; and the need for all people to transcend egoistic behaviors in favor of an ethic of community.

### “Shaping New Global Institutions II: Markets”

*Ms. Jacqueline Cambata*

Jacqueline Cambata used an anecdote from her childhood in India to introduce a discussion regarding the evolving role of markets in light of the global economic crisis. She then referred to the popular notion of “[affluenza](#),” the spiritual, psychological, physical, and other forms of affliction stemming from the intensity and pace of modern professional activities, consumption patterns, immersion in technology, and general lack of still silence and contemplative serenity in people’s lives.

Thematic questions dealt with short- and long-term standards for sustainable and ethical profitability. On one hand, sustainability imposes constraints in the Kantian sense that, “ought entails can.” On the other, even within such constraints, markets-and the economy generally-have tremendous productive potential, not just for private profit, but also to increase the social product and to promote flourishing of the community. Now that people can do so many things with and through markets, what *should* they do? In the words of the U.S. Catholic bishops in their 1986 [pastoral letter](#) on the economy, “What does the economy do *for* people? What does it do *to* people? And how do people *participate* in it?”

Lester Myers commented that mainstream economic theorists long ago had dispensed with the physiocrats’ notion that markets were natural phenomena. Neoliberal economists had argued that markets were ethical institutions because they promoted allocative efficiencies and because participating in them helped people develop praiseworthy qualities, provided they avoided excesses and other dysfunctions typical of “[affluenza](#).” Lester suggested that markets belong to a hierarchy of institutional responses to social challenges, along with public and private forms of regulation. Rejection of markets due to anti-competitive behavior of those who precipitated the global economic crisis would be hasty. He instead advocated a reflective and balanced appreciation for the strengths and weaknesses of all these hierarchical responses, including vulnerabilities of markets to failure.

Heribert Schmitz expressed concern over enormous profits for Goldman Sachs and other firms for advising clients in the crisis; he celebrated the heroic efforts of institutions such as [Grameen Bank](#). Frank Straub endorsed the work of [Opportunity International](#), an analogous initiative for promoting development at the microeconomic and macroeconomic levels.

Claire Chiang cited Australian philanthropist, [David Bussau](#) who, at 35, decided to become a social entrepreneur and adopted the view that “enough is enough.” He became involved with Opportunity International. Claire cited examples of people exercising similar principled leadership for the common good through social entrepreneurship organizations such as Asian International Management and the Delancy Street Foundation in San Francisco. Social entrepreneurship projects have become meaningful ways for young people to express themselves and use their skills productively. With seed

capital-human as well as financial-they can establish social entrepreneurship organizations and make worthwhile contributions. Claire herself has led such efforts in education and other organizations.

David Grayson commented on his role as chair for a social enterprise committee. He suggested that we analyze the notion of “social enterprise” as it appears in practice and discern the best dedication of resources for effecting salutary social purposes. David said that we might hear, “social enterprise,” and understand organizations that reinvest profits to effect such salutary purposes directly. Others might understand this to refer to traditional for-profit organizations that operate socially responsibly.

David pointed out that the first category is a relatively small percentage of enterprises and that, more broadly, we should seek to *transform* the market and social enterprise where most business activity occurs. The question should be what *all* businesses can do. David referred to a British Telecom-led initiative for principles for responsible marketing, e.g., around avoiding binge drinking. Likewise, a commitment to environmental responsibility could contribute to new market opportunities for products and services, e.g., the World Wildlife Fund’s concepts of “choice influencing” and “choice editing,” such as in progress from offering the *option* of compact fluorescent lighting (CFLs) to offering *only* CFLs. Such progress can enhance socially responsible practices of supply-chain partners.

Karel Noordzy asked how might we embed such practices in Western economies and, in general, foster more practical critical distance from the pace and demands of life to stave off affluenza. He related being in a wildlife park in South Africa with six men, one rifle, and no watches or phones. They set out to leave no footprints and, everywhere they camped, they reclaimed everything. This experience educated him to the concept of “cradle to cradle” and the practical necessity of authentic and substantive CR practices for companies to survive. Such practices are not a beauty contest, but an essential license for them to operate in local and global communities. Through various personal and professional experiences, corporate leaders can internalize this realization as well.

Noel Purcell commented that companies have embedded supply-chain practices into their CR programs to minimize risk. Investors-particularly institutional-also have become more active in insisting on these. Forward-looking companies are discerning the social contract that licenses their existence and operations more profoundly than corporate charters and corporate law.

Frank Straub responded to Jacqueline by noting that she had to deal with happy people. People matter, they are the center of the universe. He asked how we might do business by making people happy and recommended a stakeholder approach as having greater prospects for this. He disagreed with the proposition that a stakeholder management approach is a barrier to business success.

Claire Chiang commented that for businesses committed to CR, a network of like-minded organizations is necessary for survival. A stakeholder approach is necessary to identify and to operationalize such networks. For example, in her work with the United Nations Global Compact, she has inquired about like-minded suppliers for air-conditioning systems and other equipment and supplies that her company, Banyan Tree Hotels & Resorts, requires. Purchases of thousands of Women’s Work cushions helped send large numbers of girls to school.

Miroljub Labus suggested inquiring who market players are and how this influences behavior of corporate leaders, rather than focusing on the purpose for doing business. He referred to Keynes’s

notion of “animal spirits,” and a recent book by George Akerlof and Robert Shiller, *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. They argue that a constitutive element of the market is “money illusion” in the short and long run. This is due to market participants’ bounded rationality, their limited ability to discern, grasp, and analyze information. However, it also is due to corruption, which participants should anticipate and seek to minimize.

Martin Hancock commented that prices for many products do not impound their true costs. He asked to consider global integration and the search for low-cost labor. One aspect that galled him was the fact that there are many attacks on the Chinese for their carbon emissions, when most of these are to support exports. The developed world effectively has outsourced its carbon emissions.

Raed Charafeddine noted that the private sector, public sector, and civil society are important elements of society generally. He was a banker, with a background in nongovernmental organizations, including one that his mother had started in southern Lebanon in 1962, named after his uncle who had disappeared in Libya. This foundation has had a multi-faceted mission to serve women in health care, education, and economic development, and to care for orphans. They could not stop them from being orphans, but they wanted to take them out of that environment and help them not *feel* as orphans.

John Pickering commented that a friend on the British monopoly commission favored more competition but saw little of it. John wondered whether the anticompetitive nature of business, particularly due to large multinational corporations, might warrant a degree of protectionism to nurture smaller firms and thereby to encourage more vibrant and competitive markets. For example, South Korea had imposed trade barriers for many years to enable the ascent of Hyundai.

When it comes to microfinance initiatives, there likewise could be benefits to sheltering institutions and transactions that actually could be effective in realizing such objectives. For example, the Industrial Commercial Finance Corporation was an initiative of the five big banks years ago. Due to profitability concerns, though, the entity said that the smallest deal it would consider would be £500,000. This was not particularly helpful for meeting microfinance deals. John said he was an investor in a United Kingdom microfinance organization [for the developing world] with low overhead and steady returns. He wondered why microfinance was not available, or at least as readily available, inside the United Kingdom for such (unsecured) loans.<sup>3</sup>

The Lord Brennan added a plea for innovation to adapt social entrepreneurship to market realities. For example, microfinance practices tend to operate according to the American model throughout the world. Muhammad Yunus is working to institutionalize it. The objective is not to subsume microfinance into Goldman Sachs, but to ensure a steady supply of money in poor parts of the world, i.e., for microfinance services to become an established part of the banking system. Because such institutions are in the people’s hands, it is marginally easier to minimize corruption.

The Lord Brennan noted that we live in the paradigm of companies and capital markets as vehicles for running our economy. He expressed amazement that, at the beginning of the 21<sup>st</sup> century, there is so

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<sup>3</sup> On 10 June 2009, the microfinance organization, [Kiva.org](http://Kiva.org), began offering microfinance loans inside the United States.

little imagination in stock markets for social standards and social regard when it comes to ethical investment and environmentalism. He attributed this to a classic example of fossilized Western thinking switching off and asked why people should accept this paradigm of the market. It is all based on money, but the world began on barter. The world enjoys immense unused capacity, outside the “box” of money. The great value of this potential is the prospect for minimizing unemployment.

Stephen Young commented on the distinction between [fiat money](#) and [demurrage currencies](#). When a king issued money, he could reclaim it and reissue it with less gold. Fiat currency exists in paper with no commodity to back it. [Bernard Lietaer](#) has argued that we should go back to a demurrage currency.

Stephen also commented on Korean measures to develop its domestic automobile industry as more of a case of what’s wrong with protectionism. There is too much capacity in the industry and excessive demand on behalf of good causes merely may postpone serious downside adjustments.

Antoine Frem noted the need for responsible corporate leadership in getting to the bottom line as well as in deciding what to do with profits. Echoing the Kantian notion that, “ought entails can,” Antoine commented that one must make money in order to give money.

Roger Conant recounted that, after World War II, United States government policy encouraged home ownership. The creation of [Fannie Mae](#) (1938) and [Freddie Mac](#) (1970) reflected institutional efforts to support this. However, when these government-sponsored entities could not raise sufficient capital, they leveraged even more. [Congressman Barney Frank](#), now chair of the [House Financial Services Committee](#), introduced legislation to increase this leverage. During the Bush administration, home ownership increased from 60 to 70 percent as official government policy, in fact, to avoid [“redlining.”](#)

Michael Kwee and his colleagues in Singapore think CR applies to how they earn profits and what they do with them. They understand the purpose for business as creating value by offering quality goods and services, and making customers, suppliers, and other stakeholders happy along the way. These types of stakeholders are the easiest ones to get. Banyan Tree operates in more highly developed locations.

Raymond Baker distinguished “morality” from “reality” via research that his organization, [Global Financial Integrity](#), had conducted on illicit financial flows out of developing countries using standard econometric models. It concluded that about \$1 trillion leaves developing countries each year, mostly through tax avoidance, especially transfer pricing. Transfer pricing itself is legitimate, but it becomes illegitimate when people manipulate prices to avoid taxes. This dichotomy between CR and everyday corporate tax violations is pervasive. Perhaps one-half of global trade passes through tax havens, much between global corporations. The CR movement has far to go in cognizing the scale and scope of the problems when people ignore much of what goes on each day.

### **“Shaping New Global Institutions III: Governments and Multinational Organizations”**

Ir. Karel Noordzy

Karel Noordzy began by noting that, when we talk about changing the world, we often look to governments, intergovernmental organizations, businesses, and individuals. He thought it interesting that people normally appeal to government for bailouts. However, his experiences over the past two

years with his government (The Netherlands), a Western parliamentary democracy, had led him to question whether governments are as powerful as people need them to be to deal with these problems.

The economic affairs and transportation ministers had asked him to form a task force to minimize bureaucratic burdens on the transportation and other sectors, especially over supply-chain management. The work was interesting, but it did not enhance his views of government. They found 40 large and small issues of concern for businesspeople that, in the aggregate, consumed billions of euros.

Karel and his colleagues found the underlying causes for these problems startling, especially notions and behaviors of bureaucrats. Parliamentarians believe that new rules can solve social problems. However, this can increase bureaucracy and alienate people from government.

The goal of achieving transparent government also can have an inverse effect. The lower house in the Dutch parliament consists of 150 members with four-year terms. There are about eight media networks that want a scoop. As a result, parliamentarians appear repeatedly in the media to complain about dysfunction and inaction in government and exhort the prime minister to do something about it. The Dutch believe that government officials will act after whistleblowing or media revelations.

Problems can arise from persistent differences between world views, cultures, and priorities of civil servants and private citizens. Civil servants' training focuses on risk management, e.g., preventing ministers from having to respond to difficult questions in parliament. Civil servants are diligent, but not entrepreneurial. The global economic crisis arose from a financial crisis, but also reflects a systematic social crisis. What would happen if government bureaucrats and civil servants managed for the best and not for the worst, along the lines of James Autry's book, [\*The Servant Leader?\*](#)

We assume that 95 percent of people act well and out of principle. We aim regulations at the other five percent, harming the majority. Can we not reward people for doing good things rather than penalizing misbehavior? Positive reinforcement tends to be more effective at eliciting salutary conduct. What would happen if leaders based policies and legislation on experience and research findings, rather than theory, and put themselves in the position of their citizens, including businesspeople?

The task force responded to the 40 problems with eleven recommendations. Twenty problems involved European Union laws and were complex. The group recommended a commitment to solve 15 others within six months. It should be possible for civil servants to recommend reforms without them saying what will not work. The solution need not be perfect, but viable and practicable. Karel believes that the Dutch are prisoners of their regulatory apparatus and pointed to the fact that it takes forever to build roads in the Netherlands.

After sharing this experience, Karel asked the group two questions:

- (1) to what extent do we need international organizations to effect beneficial change in economics, environment, health, and education; and
- (2) when we set up such organizations, whether new or revised, what are the key factors for success? What mechanisms should be in place to promote effectiveness?

Frank Straub commented that he tried to get three prominent German associations to adopt ethical standards. With two it did not work. With the third, it took two years. He believes that national associations are largely lobbying organizations for their constituencies. As a result, it is not effective to reform old organizations with entrenched cultures. If we wish a world government, we should set up a new one. Anything else probably would be a waste of energy and effort.

Raymond Baker commented that 2.5 years ago, he and his colleagues went to Erik Solheim, the Norwegian minister of development cooperation. They asked him to perform a survey of international flows of corrupt money through the World Bank. Minister Solheim wrote to the bank's president, Robert Zoellick, who agreed to do it. However, the bank's staff would not do it. Raymond inferred that the staff felt that such a study could have threatened the bank's mission and prestige, e.g., if it were to have shown that \$1 trillion was flowing out of developing nations, while only \$100 billion was flowing in. Raymond said that the World Bank should put the whole of the financial equation for development on the table for analysis. The bank has the potential to be the most important institution for human development in the 21<sup>st</sup> century. However, it will need to overcome systematic dysfunctions in its structure for governance and accountability first.

Gerald McGhie referred to the International Monetary Fund as a legacy institution reflecting the world just after World War II. One can adopt universal or regional approaches to social standards, practices, and issues for their agendas. Regarding leading practices, viz., a level playing field, in the Pacific, institutions really try to implement instructions of the Asian Development Bank, World Bank, and other intergovernmental organizations. The educational and professional formation for the staff of these organizations has reflected strong influences in market theory for 25 years. Gerald doubted that these institutions realize the practical significance and implications of market reforms, given the remoteness and developmental nature of many of the societies and economies that these policies affect.

People, places, development, and economic conditions around the world reflect two ethically relevant distinctions in aspects: (1) domestic from international, and (2) political and economic. Gerald noted that his own nation of New Zealand is a decent society, but it treats the Fijian people shabbily. He said that the country gets preachy when it looks beyond its borders.

Heribert Schmitz commented that we need international institutions to respond to global challenges. We need to reassess institutions and look to the principle of subsidiarity to assist us in recalibrating them, e.g., in restricting overarching global regulation and guidance to the minimal necessary scale and scope. We should preserve zones for more proximate regulation and, especially, for ethical decision making apart from laws, i.e., an ethos that voluntarily aims for the spirit as well as the letter of the law. Such a multi-layered approach will enhance the prospects for prosperity.

Bruce McEver commented that there is too much government and we need to reduce it significantly. While working for the Systems Analysis Group under United States Secretary of Defense Robert McNamara, he and his colleagues worked in units and looked at budgets. They concluded that budgets were too big and sought objective criteria for cutting them. The programs had no sunset provisions and the bureaucracies were likely to grow forever. Bruce noted that it can be helpful to apply such systems audits to organizations. The United Nations has much knowledge, but it does not work. It would be

more beneficial to conduct an audit than to retrofit its building. We have in the CRT thoughtful and energetic people and the organization could benefit from revitalizing its own efforts with a view to partnering with organizations working on similar environmental, economic, and other issues.

Jean-Pierre Méan suggested that we reduce government by eliminating 229 of the 230 governments in the world and focus on global responses to global problems. Drawing on his experience in banks and law, he noted that management spends much time keeping the board out of an organization’s affairs for fear of interference. The mentality of management in some organizations is that directors will be the last to learn of confidential matters. In intergovernmental organizations, the loyalty of representative governors or directors is to their respective governments. If we use intergovernmental organizations as the basis for new institutions, we must reshape the chain of accountability and governance.

He noted the changed situation since just after World War II, when the United States and Europe asserted global caretaking authority, and recommended reshaping intergovernmental organizations to:

- (1) be objective, fair, and legitimate in the eyes of the world;
- (2) have power to make decisions through majority-rule voting to avoid obstruction; and
- (3) have power to implement decisions through national governments or directly.

Claire Chiang commented that many see the work of intergovernmental organizations as politicians’ work, not something that interests them. Asia has set up its own regional watchdogs and this can be confusing. Another issue is whether these institutions have teeth to do their work. One way to renew them is through tax-incentive structure, e.g., that provide incentives to set up shop in Singapore.

Claire suggested that we look to international business organizations in addition to intergovernmental organizations. For example, regarding pricing, a buyer with Marks & Spencer could engage production in China and impose standards for leading practices on supply-chain partners. The buyer could use this influence to try to get Marks & Spencer to make philanthropic contributions. We should promote pluralism, partnerships (including public and private institutions), and possibilities.

Wayne Lewchuk said that we need global institutions, but we should consider their roles through the reality of the “80-20 rule,” i.e., that 20 percent of people consume 80 percent of goods. We cannot fix this disparity quickly, but we should begin. Free trade, e.g., through [NAFTA](#), has been the traditional approach, but with mixed results. The Canada-United States Auto Pact was effective, though, and simple, two sides of one page. We need an international organization that helps to share these burdens. A low passing grade, e.g., a “D+,” will be sufficient for this effort. We have to start somewhere.

Miroľjub Labus commented that the IMF only cares about macroeconomic stability of national economies. The World Bank fights inequality but has limited resources. The [European Institute for the Furtherance of Democracy](#) implements for the EU Commission, with a business orientation. The United States has been the most helpful, but political issues remain among countries assisting us. A key question is whether nations regulate through uniformity or harmonization. Another issue is who will implement new regulations. The IMF has changed over the past 24 months, gaining realism and means.

David Grayson related the anecdote of an elderly Irishman who responded to a request for directions to Dublin: “If I were you, I wouldn’t start from here.” Yet, this is where we are. Power is shifting from the OECD to the developing world. There are new organizations, e.g., the Shanghai Organization, which could be an important player. Jean-Pierre offered three critical success indicators. I would endorse these and add the capacity to learn, a capacity within organizations to implement, and a passion for continuous improvement. They also need a capacity for future thinking (“scanning”). One of the biggest difficulties in institutions today is pressure on politicians to make instant decisions.

Martin Hancock commented that the issues are global. Governments follow election cycles, while global organizations have more staying power and longer perspectives. We should reform the latter: the job of the United Nations is not to take us to heaven. It’s to stop us from descending into hell.

Raed Charafeddine said that we need new wineskins. He quoted Einstein, who said that we cannot respond to current problems with old solutions. There are different approaches from different regions. We must abandon the attitude of the “buck stopping here,” i.e., in North America. We must take account of other regions and stakeholders, with openness to civil society. We need broader documents to promote CR that are analogous to the Universal Declaration on Human Rights.

Michael Kwee said that we need intergovernmental organizations and metrics such as the KKI’s index.

Antoine Frem commented that a key success factor is depoliticization of our efforts. We also need to enhance implementation. We should not allow countries to use geography to constrain commerce.

Heribert Schmitz said that organizations tend to aggrandize power and sustain themselves. The European Union could be a model to form and renew intergovernmental organizations.

Frank Straub said his recommendation for new organizations assumed world government. For now, we need to work with institutions we have. In 1968, young people marched through institutions demanding revolution; it worked sometimes, e.g., the labor court. We need similar protests now.

Stephen Young noted that we dislike (1) markets because of unbalanced outcomes and (2) politicians because of ineffective stewardship. We recall the genius of the “and,” i.e., markets *and* governments. Another important issue is stewardship capital, and this could bridge markets and governments. The immediate challenge is an intellectual one, viz., to create a foundation, a sense of vision, to establish a new global enlightenment and for the accumulation of stewardship capital.

## **Lunch Presentation**

### [Professor Miroljub Labus](#)

Professor Miroljub, who had served as deputy prime minister of Serbia, taught economics at the University of Belgrade. He offered remarks after lunch on the second day of the GD. He spoke of the necessity for courage and commitment to principled leadership in public and private institutions in the face of extremely serious circumstances, such as the social and economic deterioration in the

wake of the global economic crisis. He spoke out of his own courageous witness and leadership in the political and economic turmoil during and after the war in the former Yugoslavia.

## Country Reports

Participants shared developments in CR practices and trends in their countries over the past year.

### *Australia*

Noel Purcell reported that initiatives in Australia focused on political action with regard to the [Seven Point Reform Plan to Restore Trust in Business and in the Global Financial System](#). Copies went to the prime minister and other senior government officials. This influenced the Australian contributions to the G-20 summit and led to the creation of a commission. The CRT also cooperates with corporate governance organizations, including the [St. James Ethics Centre](#) in Sydney, where he does significant work. The centre recently received a grant of several million dollars.

### *Canada*

Wayne Lewchuk mentioned his work as a labour professor and noted that Canadian unemployment was at 10 percent and rising. The automotive industry was in a difficult transition, though the Canadian banks remained largely stable due to a conservative culture. Five years ago, banks began to merge and to “bulk up.” They had wanted to merge into as few as three, but the government intervened to halt this. Bank profits almost covered dividends and they did not cut them as a result.

### *Colombia*

Diana Cure spoke out of her experience as a journalist and scholar who practices CR through a public-private partnership entity. She believes that such collaborations highlight the importance for scholars and practitioners to remain cognizant of generational changes, especially:

- (1) responsible practices immanent to an agent’s action and to future decision makers; and
- (2) emerging global actors with greater influence on economic matters: incipient global civil social institutions with an emphasis on optimizing social goods.

### *Germany*

Frank Straub provided a short history of the [CRT Germany](#), including the establishment of a “Transfer Group” in Baden-Württemberg. This led to the foundation of the CRT Deutschland e.V. on 22 January 2007. It started with seven members and had grown to 26, all volunteers. The organization allows them to place the CRT logo on their Web sites. The philosophy of the group is to reach a critical mass of members and then pool contributions to be able to afford professional staff. Frank reported that they are close to reaching this goal. The membership fees are 20,000 €. The organization’s Web site links to the global CRT site, along with brochures and marketing collateral.

The CRT Germany has developed software to implement Arcturus and it is undergoing testing. Students help perform engagements to keep fees low. Other services for members include drafting

integrity clauses for contracts, compliance guidelines, and communication platforms. The local (Baden-Württemberg) organization issues press releases. Members also give presentations frequently to academic and professional organizations.

### *Japan*

Hiroshi Ishida reported implementation by the [CRT Japan](#) of CR practices with an expanding circle of organizations through the Arcturus Program and other contacts.

### *Lebanon*

Antoine Frem reported that the CRT did not have an official presence in Lebanon, but that, after this GD, it might have one. He lives in a tense region, with numerous security concerns that implicate global security. A Lebanese transparency association interested in good governance might be a candidate to work with the CRT. Free enterprise has endured, even as other institutions have failed.

Raed Charadefeddine mentioned familiarity with Moral Rearmament due to a friend’s involvement. Although priorities in Lebanon seemingly differ, the CRT and CR principles are not far from people’s concerns. Mohammed said, “He is not a believer in God who, the day after, sleeps full next to a hungry neighbor.” By tradition, a “neighbor” extends to seven doors down. One of the four caliphs prescribes: “Put out one candle and light another.” This has ramifications for the scrupulous use of candles for personal versus business purposes. Another example of such relatedness regards tax policy: “if there are resources beyond my needs, 20 percent must go to the poor.” No one dictates this-or knows about it.

### *The Netherlands*

Hans Bax reported that the level of suffering in the Netherlands from the economic crisis was on par with other countries. There is not a dedicated Dutch chapter for the CRT and that Hans’s involvement resulted from his work with an Asian association. He asked his assistant for research about CR and the Internet search resulted in 4.2 million hits. He appreciated the widespread interest, but remains suspicious of the involvement of numerous corporate public relations departments. He mentioned that his organization had scheduled a conference on greenhouse gases.

### *New Zealand*

Gerald McGhie reported that five-sevenths of New Zealand banks are under foreign ownership. Government and private debt are low. Government has guaranteed deposits for two years. Interest rates are around 1.8% and declining. Unemployment is about 6.4 percent. There is a good relationship between the prime minister (who plays “good cop”) and the minister of finance (“bad cop”) when it comes to assisting companies and others. As a result, the government remains popular.

### *Poland*

Slawomir Nowotny reported that the economy in Poland is “not so bad.” It is growing slowly, though fear of deeper crisis persists. The majority of the banking sector is foreign owned, with strategic decisions occurring elsewhere. The CRT Poland is setting its objectives and agenda and starting to be

active. Regarding the background of CR practices in Poland, the main problem is one of “misprofessionalization.” Low-level managers with small budgets seek short-term results. They do this with the assistance of external consultants as though they were hiring personal moral advisors. Ethics is one of several company functions. The orientation is too managerial and technical. We could direct CR more toward community involvement, e.g., philanthropy, and less toward integration into core business processes. A key objective going forward will be the integration of CR factors into the decision making of senior organizational leaders.

### *Russia*

Yury Blagov reported that the business school at his institution, [St. Petersburg State University](#), has been teaching business ethics since 1993. Thanks to efforts of Yury and his colleagues, as of 2009, there is a core course in CR for managers. They also have collaborated on research with the [Russian Manager’s Association](#), including a report on social investment last year. The United Nations Development Programme posted the report on its Web site for free.

Yury and his colleagues surveyed businesses regarding the main purpose for CR initiatives and practices. Eighty-three percent reported following a strategic approach, i.e., for business advantage. Many of these people wished that government would take a more active role. At the onset of the economic crisis, many Russian companies cut their CR programs and initiatives. Yet, Yury remained optimistic about the long-term prospects for such practices.

### *Serbia*

Miroљub Labus reported that CR practices depend on the type of company. Many joint-stock companies continue to operate as family companies, with few CR programs. Others are under foreign ownership and demonstrate such initiatives, e.g., annual round tables, philanthropy, codes of conduct, and involvement in business associations. There is progress, but there is a long way to go.

### *Singapore*

Claire Chiang reported that the strong Singaporean government provides competitive advantage for promoting strong, responsible businesses. Her company, Banyan Tree Holdings, has worked to create a hospitable business climate, even managing the unions. The policy is “tripartism,” with the government intervening to work with labor and management.

The government has set up similar (tri-partite) initiatives of employee, labor, consumer, and other associations regarding CR matters. Just last year, the minister of trade and industry issued a report regarding CR practices, with disappointing conclusions. The awareness of CR remained at about 40 percent. Many other public and private requirements for corporations function as substitutes to achieve CR objectives. As a result, some have discerned little need for a dedicated holistic CR group or initiative. Claire had founded the [Singapore Compact](#), but she stepped down this year.

Ninety-five percent of Singaporeans own homes, the highest percentage in the world. Family businesses remain strong in Singapore and this affects the success of CR initiatives.

Gerald McGhie asked whether government and the populace appreciate CR consistently.

Claire responded that, at the Asian Pacific International Conference meeting, the government emphasized governance as distinct from CR. The government may construe CR as (stockholder) activism or philanthropy, i.e., so that it will not *have* to meet social needs. Dissonance persists.

Stephen Young commented that the demands from government officials in Singapore were for data about how CR practices will improve economic indicators.

Heribert Schmitz commented on CRT Germany’s challenges in marketing Arcturus. All 18 clients have required nondisclosure agreements for their purchase of such services; this is not surprising.

Michael Kwee reported that Banyan Tree Holdings established the [Banyan Tree Global Foundation](#) in late spring. The foundation has sponsored a dialogue of about 20 people who meet to discuss CR. It also hosts major speeches every two months. A survey reports small- and medium-sized enterprises had an awareness of CR issues of 30 percent. For family businesses, it was about five percent.

For those interested in embarking on a CR journey, the foundation stands ready to assist. It is working with Stephen Young to translate [Moral Capitalism](#) into Chinese.

#### *South Korea*

Se Young Yang reported four currents:

- (1) companies turned to CR with a will;
- (2) perceptions of CEOs about CR shifted and they heightened resolve to implement such practices;
- (3) continuing growth in Korean companies’ social (philanthropic) contributions; and
- (4) a “Happy Meal” program.

#### *Switzerland*

Jean-Pierre Méan reported that the UBS case remains foremost. The bank secrecy laws reflect a long legacy. In the United States, the Internal Revenue Service asked for information regarding accounts of 230 UBS customers, under veiled threat of withdrawing its banking license. Two days later, the Swiss Supreme Court ruled that the bank should not have transmitted the information.

The bank decided to do everything it could to get off the “gray list.” The Swiss maintain that, while bank secrecy is not gone, foreign governments will have to articulate their suspicions of wrongdoing, akin to a probable cause standard. There likely will be more rollbacks of bank secrecy. The IRS is pursuing another case in Miami and has requested account information for another 52 names. Bank secrecy long has been part of Swiss identity and these requests have occasioned great changes.

Pierre Christodoulidis commented that the [Convention of Independent Financial Advisors](#) (CIFA) that he chairs operates parallel to the banking system. He said that the organization has tried from the beginning to forecast the consolidation phenomenon in the banking sector and to work to reform rules in a manner akin to the CRT principles. The Swiss introduced their bank secrecy laws to defend others. Pierre and his colleagues are concerned about transnational efforts to impose requirements for transparency. Pierre mentioned that CIFA is the only nongovernmental agency with consultative elements. It has introduced a [charter for investors’ rights](#) through the United Nations.

### *Thailand*

Nick Pisalyaput reported that the economic crisis has not affected Thailand as much as it has other countries, in part because of the 1997 banking crisis. The country has endured modest economic effects, e.g., in tourism. The major fallout from the crisis has been political. Over the years, the lines between politics and economics had blurred due to longstanding corruption. Nevertheless, by the early 2000s, there was great interest in CR. There had been a bloodless coup in 2007, with popular support. One of the first acts of the new prime minister was to set down rules more stringent than legal requirements. He also devoted a large portion of the budget to promote efforts for ethical business practices, in concert with the king, not just for large corporations, but for all businesses. The Buddhist tradition underwrites a sufficiency philosophy for economic policy, including:

- (1) reasonableness, e.g., toward one’s stakeholders;
- (2) moderation, living within one’s means; and
- (3) self-immunity.

The conditions for these three pillars include knowledge and integrity.

Stephen Young noted that the CRT Thailand’s former director is now the foreign minister. With Claire Chiang’s support, Stephen hoped to offer an August session to gain visibility among Thai officials.

### *United Kingdom*

David Grayson reported that the focus for CR in Britain has evolved over 30 years from community involvement and philanthropy toward governance and core business processes. The organization, Business in the Community, began in 1982 and its 800 members do significant work on stakeholder concerns. The infrastructure for promoting CR in each country differs according to existing initiatives.

### *United States*

José Montero reported a crisis of trust in the United States that affects all sorts of public, private, and exempt organizations. Social marketing and social entrepreneurship remain important factors for promoting awareness of and commitment to CR in many types of organizations and this arouses intergenerational interest in these issues. In addition, a growing number of prominent organizations champion principled leadership and CR, including the [National Association of Corporate Directors](#), the [Business Civic Leadership Center](#), the [Caux Round Table](#), and other professional associations and exempt organizations. Universities also continue to be important players through their curricula, practica, and ethics centers. For example, [Georgetown University](#), the nation’s oldest Catholic university, continues to emphasize issues of ethics and professional and organizational responsibility in all of its programs, in conformity with its Jesuit mission and identity.

## **Overview and Summation of Global Dialogue**

### *Dr. Noel Purcell*

Noel commented on salient themes of the GD. He noted consensus that the efficient market theory that drives modern corporations and capitalism does not self correct from shocks and excesses. It does not have an effective immune system to protect us from “affluenza.”

The question then is how we should propose to transform the free market system. Privatization of government industries might be appropriate when competition remains possible. A moral compass of ethical principles is a necessary element for the response. However, it is not sufficient. There need to be new and better regulatory regimes as well. Again, these are not sufficient.

It is essential, though, to *transform* the system, rather than create a new one.

The CRT’s mission to promote moral capitalism for a better world remains a worthwhile agenda. The constructive ethical behaviors that the CRT principles promote are critical if we want to sustain business success and long-term wealth creation. Yet, the focus for the CRT’s message should be on *risk* and *opportunity* as cognizable and actionable concepts for the business world, rather than appeals to ethical principle alone. Principled leadership requires effective risk management, even though ethics is about more than managing risk and relying on the heuristic approaches of mathematical models. Risk management is an instrument for the broader goal of maximizing opportunities.

Business is about more than economics and finance. Businesses are social organizations, with multiple dimensions and interrelationships. Wealth creation and redistribution will be essential to avoid externalities of business enterprises and social instability. Responsible business is first and foremost about how organizations make profits and conduct their business, about core business processes, rather than (merely) what they do with profits. Greed and narrow self interest have figured in the crisis, e.g., executive compensation practices. These tend to misalign incentives for executives when it comes to the good for their organizations.

There is no single “market.” Rather, multiple markets-including for human, environmental, and financial capital-are fundamentally interdependent and intertwined-and in need of reform. One size does not fit all. Cultural and other differences are relevant and require our attention.

The Bretton Woods Institutions-the International Monetary Fund and the World Bank-require reform. They remain highly politicized. They are suffering from a crisis of legitimacy in the eyes of much of the world.

The new rule about institutional influence should be, “if it is too big to fail, it is too big to exist.” Does this mean that we should recommend breaking up large corporations? If so, we would be taking on a big battle, with few prospects for success. A productive alternative is to argue that, if we must live with such large organizations (i.e., that are too big to fail), then they must be subject to the most rigorous internal and external oversight.

We need to promote responsible stakeholder management, e.g., by unlocking the power of owners and by looking to supply-chain relationships to help drive ethical behaviors back through supply lines.

Reforming the global financial system in the wake of the crisis implicates a broader set of key sustainability issues encompassing climate change, global welfare, and the social fabric. We have a great basis on which to work. People have the innate capacity to appreciate justice and virtue. We all want a social *market* economy with ethical and legal standards. We need to find the basis for a social *stewardship* economy.

Everyone involved with the CRT needs to take personal action and play his or her part. Many have participated in this year’s GD. A strength of the CRT is that it does not have vested interests and it is not subject to bureaucratic inertia that can limit the effectiveness of other organizations. If the CRT is going to be effective, its members will need to broaden their reach. The organization openly and successfully must invite participation by building involved networks. The CRT must form a more effective hub, e.g., by disseminating its thought leadership and through projects with retail providers such as advisory firms. It also must reach out more effectively to large corporations, while avoiding the risks of adopting a corporate membership structure. Regular engagement among members of the CRT should continue throughout the year via the Web site.

David Grayson recommended reaching out to business schools and business and professional associations. Stephen Young commented that he tried this last fall and it produced zero results.

Lester Myers commented that we needed to continue these efforts and allow a reasonable amount of time to assess the results. Despite the limited resources of the CRT, the previous year had seen significant progress in outreach and cooperation with corporate, professional, governmental, exempt, and intergovernmental organizations, in part because of the global economic crisis.

Martin Hancock commented that, “the patient is still coming out of intensive care. Give it time.”

John Pickering noted that the term, “corporate social responsibility” is problematic, both in terms of its legacy and the various cultural and legal contexts in which we try to apply it. In the United States, this term has been falling out of fashion, in favor of “corporate (or organizational) responsibility.”

Slawomir Nowotny commented that we live in an overbranded world and that the organization needs to revisit the question of the global applicability of a single name. The name, “round table” has very different resonances in Poland relating to the final years of Communism. He suggested looking to a Latin term, e.g., “virtus.”

Raed Charafeddine noted that the banking sector is flourishing in Lebanon. He referred to John Kotter’s books, *Leading Change* and *Heart of Change*. Raed said that it is critical to convey a sense of urgency: “There’s something cooking here and it smells good.”

Claire Chiang commented that her company, Banyan Tree Resorts, has more than 58 nationalities in its top management. She noted that there are multiple Chinese expressions for “giving (back),” “pyramid of communities,” and other concepts for promoting principled leadership and ethical practices. She referred to the work of the Hong Kong Trade Development Council and other conferences.

## **Concluding Comments**

*The Rt Hon. The Lord Daniel Brennan QC*

The Lord Brennan said that, “We all think we know what we think and we come to refine it and find new things. This is the purpose for a dialogue. . . . I took six messages from the meeting.”

1. The CRT needs a brand concept, e.g., “responsible business.” Who can object to such a vision? Much of human behavior is a routine, but occasionally an event occurs in one’s life,

country, or community that signals a moment for change. This is such a moment. People are exhausted with the expression, “CSR.” It does not mean anything anymore. We do not need the “social.” An organization must be responsible for its (a) governance and (b) its place in the community. We only achieve this through people (brand ambassadors). The movement to promote such responsibility and principled leadership needs women and younger people. No idea has continuity without generational representation in its group.

2. Business needs a moral framework. Bertrand Russell said that no community can exist without one. I simply do not understand anyone from business who could tell me that his or her sector or business could exist outside a moral framework. If it cannot exist outside, then it must exist *inside* such a framework. Stephen Young’s book, *Moral Capitalism*, illustrates to the general reader that he or she need not be a believer-a person of faith-to be part of such a moral framework. The principles in a business community are generally positive. We join together because we *share* together to build a community of work.
3. The effects of this recession are highly significant. The post-war generation in Europe and the United States wanted security, both militarily and in terms of social life. They wanted governments to provide it. By the 1960s, the next generation came along and a massive consumer society arose. By the end of the century, there was consumer exhaustion, economically and morally. This recession marks this generational shift in the United States and around the world. This is extremely important. Ordinary people want change. They look to business to assist in this change in thinking and principles. With regard to banking, until the members of Parliament became entangled in their own scandal over expense accounts in the summer of 2009, people were ready to lynch bankers on the street. The rage has not gone away. Ordinary people do not forget. This is not over. Damn right it’s not over. People who are graduating from school the world over are having trouble finding jobs. They and their parents are going to be very angry. This autumn will produce far more profound social debate about what has happened as people begin to digest it. Martin Luther King, Jr., said that, when times get hard, the rich live on socialism and the poor experience the rugged realities of capitalism. When people lose confidence in the system, the system itself suffers a loss of their trust. When there is such a loss of trust, one cannot get it back without significant sociological processes occurring. This is an obligation, not just of business, but of politics, too. The effect of the recession provides the moment to seek *change*.
4. This is a sign of opportunity. The developed world wrestles with tired, defensive, and confused societies. The reaction of such societies in a time of crisis is to get back to normalcy as quickly as possible, a status quo ante, and to hope that such a disruption does not happen again. In the news that very morning, Goldman Sachs was handing out bonuses only months after the crisis had begun. From this time of opportunity in the developed world, there are three avenues for business in particular, where there could be a groundswell of entrepreneurial inspiration:
  - a. Political: we convince politicians to effect change about regulation. Taxpayers will ask, “What about me? What about tax havens?”
  - b. The short termism, the pay, the reputational disasters may be swept away by Goldman Sachs, but not by the banks. Business needs to rekindle itself. It needs a message for itself. There must

be a brutal message: “If you don’t act morally, you will destroy your institutions.” Blaise Pascal said, “if you believe in it, fine. If you don’t and it works, fine. Do it.”

- c. We need to remember the importance of personal responsibility alongside social responsibility. People have spent money like there’s no tomorrow. In the developing world, the issue is not “know-how,” but “know-who.” We should be very sensitive to the assistance that the developing world lends, e.g., the sufficiency economy of Thailand.
5. I am concerned that Europe is declining intellectually, and persisting in the belief that old ways will fix things. In the United States, the size, native wit, and entrepreneurial inspiration of the country may help to lift it out of the crisis. In the years ahead, Brazil and China will represent one-half of the world. They will have influence and they will exercise it.
6. The CRT needs a core institution. It cannot exist as a chain of independent chapters. It needs core intellectual capital. Before Parliament is a Companies Act with aspirational standards for directors. We should have a similar framework for governance and for our thought leadership. I recall a story about members of three Catholic religious orders. When guests show up unexpectedly for the weekend, the first, a Jesuit, says, “How are we going to control these people?” The second, a Dominican, asks, “What are we going to teach them?” The third, a Franciscan, says, “Pull yourselves together, guys. What are we going to eat?” So it is with what we give to corporations. We have to develop thought leadership and a vibrant network to have something to give to corporations, governments, associations, nongovernmental organizations, and other institutions that exercise important influences on the global community.

In conclusion, I note that the CRT grievously has ignored Africa in its outreach. One or more attendees from Africa were to have participated in the GD, but could not do so at the last minute. I recommend that, for the next GD, the organization should pay for two young scholars to attend. The Middle East is one of the highest educated sectors of the world with the highest unemployment.

*After a concluding dinner and testimonials in the historic La Salle du Lac on the evening of 14 July, the GD concluded and participants departed Mountain House on the morning of 15 July.*

Respectfully Submitted,

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<sup>4</sup> District of Columbia, Ohio, and Virginia.