Pegasus



A newsletter for the Caux Round Table Network Looking at business above the clutter and confetti

Moral Capitalism At Work

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Our understanding of the global economy has just been re-shaped by the credit rating downgrades of major international financial houses by Moody's and the exposure of systemic fixing of the LIBOR interest rate that is applied to \$US10 trillion in loans and up to US\$350 trillion in nominal face value of derivatives. In short, private sector decision-making in the financial industry did not lead to the greatest good for the greatest number as utilitarians would want nor to ethical responsibility for promoting a sustainable global economy.

The Moody's downgrades relied on a post-2008 awareness of the intrinsic risks and instability associated with profit seeking with high leverage in the trading of financial instruments. When the great financial houses were left on their own, they adopted a business model that, in the long run, generated far more losses than profits and spread those losses like a contagion far and wide to many who had done nothing wrong in their economic decision-making.

New awareness demands new thinking. This issue of Pegasus presents our network with an introduction to a new way of thinking about money and the role of government in sustaining financial markets. This is an essay written by myself with guidance from Stephanie Kelton and incorporating one of her earlier essays. Stephanie is a professor at the University of Missouri Kansas City and is a member of the team developing Modern Monetary Theory.

Second, this issue publishes some thoughts about Chinese approaches to ethics, various traditions within a Chinese vision of natural justice that support alignment of our behaviors with ethical standards.

Third, this issue takes a look back at one powerful ethical tradition, that of Catholic Social Teachings as expressed in Pope John Paul II's famous encyclical of 20 years ago, Centissimus Annus. Thomas Bausch, former Dean of the Marquette Business School, reflects on how well the Encyclical framed its concerns so that 20 years later we are not surprised at their relevance and cogency.

Stephen B. Young Global Executive Director

RETHINKING MONEY AND ECONOMIC GROWTH A WAY TO GROWTH FOR FIAT CURRENCIES

Stephen B. Young
Global Executive Director
Caux Round Table

Stephanie Kelton Professor University of Missouri, Kansas City A new approach to the role of the state in capitalism is being advocated by economists at the University of Missouri Kansas City. It is called Modern Monetary Thinking or MMT. It smashes our old way of thinking about government deficits and so opens up new possibilities for capitalism.

MMT asserts that our economic system has evolved and changed so that the old idea of government "deficits" no longer has policy value. When certain governments run deficits, they are not building up risks of non-payment as families and companies do when they run deficits. These government deficits are not really deficits at all then.

The change in economic reality came 41 years ago when the United States stopped promising to pay a fixed amount of gold in exchange for its paper currency. It went to only paper as legal tender. Such paper money is called "fiat" currency for the old Latin usage meaning "Thus it shall be!"

Governments that issue fiat currencies can issue as much as they want. How much they issue bears no relation to the amount of money they take in taxes or borrow. But we use old fashion thinking to say that when a government issues more legal tender than it takes in, it is in "deficit". This is a wrong use of the concept of deficit.

We think of deficits as leading to debt repayment and so as a worrisome thing as what will happen if we can't pay our debts? But a government that issues a fiat currency to those under its political hegemony doesn't have to pay any real debts. When the time comes to pay a government bond, or buy equipment, or pay salaries and there is not enough fiat currency in its treasury for the payment, it can just issue more fiat currency which the payee must accept under the law as payment in full of the government's obligation.

Now when a private party – a person, family, company – is in deficit, it is a serious matter. No person, family or company can print money to pay their debts. Others have legal claims that must be settled with money obtained in the economy from work, sales, savings, or gifts. If a private party has too little ready money at hand, they must suffer legal consequences in loss of assets to their creditors, leading up to bankruptcy and real hardship.

But a government that can settle its accounts with its own currency is in a different position. When it goes into "deficit", that is only saying it needs to issue more of its own money to balance its accounts with the private sector. Thus, under these circumstances, a government deficit is no more than a number on a balance sheet which tells us how much money the government has put into the private economy.

If, however, a government must pay in a currency it does not create – either gold or the fiat currency of some other government – then its situation is like that of a private individual, family or company. It must worry about the consequences of non-payment of its obligations. Thus if countries borrow in US dollars and can't repay in dollars, they will default and somebody must lose the dollars that didn't get repaid. Or, in the current case of the Eurozone, if Greece must pay its creditors in Euro's and it doesn't have enough Euro's and can't print any, then it will default and whoever has financial claims on the Greek Government will not be paid.

Why is MMT important? First of all it has powerful implications for the United States in getting back on the path of economic growth. The policy legitimated by MMT is for the US Government to inject its fiat currency into the private sector to provide liquidity for purchases. When purchases increase, demand for goods and services rises and companies respond with new hires and capital investment. Higher income levels among consumers and more purchases as a result of the new investment create economic growth. The numbers on the government's accounts will change to show more money put into the economy (a "deficit" by old fashioned accounting convention). But there will be no "deficit" in the sense that the government will be unable to pay any creditors.

A point of crisis for the government would come when the people refuse to accept its fiat currency and demand payment in legal tender that it does not have – gold, diamonds, Yen, Euro's, Ren Min Bi, etc. But when its economy is in depression or a serious recession, the people will be willing to accept the fiat currency to help them out in difficult times.

MMT illuminates with new sophistication the rela-

tionship between government and the financial sector. The financial sector manages liquidity for the economy. It accepts savings and investments on one hand and put them out in the form of contracts for repayment (stocks, bonds, mortgages, loans, credit card expenditures, derivatives, etc.) on the other. When too many contracts for repayment accumulate in the private economy, a recession occurs as consumers and companies hold back spending to reduce their obligations to pay on such contracts. As spending declines through debt payments, savings increases and avoidance of new debt, the economy responds to a decrease in aggregate demand.

In fiat currency economies, according to MMT, the government can step in to re-balance demand that has fallen off due to private sector mis-judgments. The government plays its role by adding liquidity to the private economy, which is accounted for on the balance sheet of the government as an increase in the amount of fiat currency it has provided or what we have called its "deficit".

Professor Stephanie Kelton, one of the scholars developing MMT has written the following explanation on her blog:

WHAT HAPPENS WHEN THE GOVERNMENT TIGHTENS ITS BELT?

Stephanie Kelton

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Imagine two people sitting on opposite ends of a 15foot teeter-totter. The laws of physics dictate that the seesaw will balance if the product of the first mass (W1) and its distance (d1) from the fulcrum

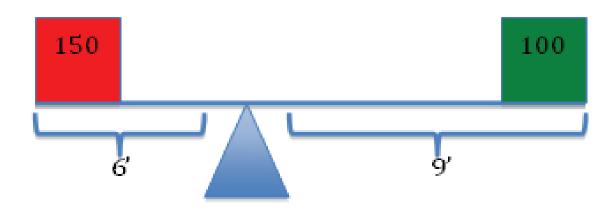
(i.e. the balancing point) is equal to the product of the other mass (w2) and its distance (d2) from the fulcrum. Thus, the physicist can show that the teeter-totter will be in balance when the fulcrum is placed 6 feet from the end holding a 150 lb person and 9 feet from the end holding a 100 lb person. Moreover, the laws of physics ensure that an imbalance will arise if the mass or the relative position of Or, after canceling (C) from both sides and moving one of the people is changed.

$$[2] Y = C + S + T$$

Since they are equivalent expressions for Y, we can set equation [1] equal to equation [2], giving us:

$$C + I + G = C + S + T$$

terms around:



The laws of accounting allow us to demonstrate that similarly powerful concepts apply to the science of economics. Beginning with the simple identity for GDP in a closed economy, we have:

$$[1]$$
 Y = **C** + **I** + **G**, where:

Y = GDP = National Income

C = Aggregate Consumption Expenditure

I = Aggregate Investment Expenditure

G = Aggregate Government Expenditure

For economists, this is as obvious as stating that a linear foot is the sum of 12 sequential inches. It simply recognizes that the total amount of money spent buying newly produced goods and services will yield an equivalent income to the sellers of these products. Thus, it demonstrates that expenditures are a source of income.

Once earned, income can be allocated in one of three ways. At the end of the day, all income (Y) will be spent (C), saved (S) or used in payment of taxes (T):

$$[3](S-I) = (G-T)$$

Equation [3] shows that there is a direct relationship between what's happening in the private sector (S - I) and what's happening in the public sector (G – T). But it is not the one that Pete Peterson, Erskin Bowles, or President Obama would have you believe. And I want you to understand why they are wrong.

To understand the argument, imagine that you and Uncle Sam are sitting on opposite ends of a teetertotter. You represent the private sector, and your financial status is given by (S – I). Your budget can be in balance (S = I), in deficit (S < I) or in surplus (S > I). When your financial status is positive (S > I)1), you are net saving. When your financial status is negative (S < I), you are net borrowing. Uncle Sam's financial status is equal to (G - T), and, like yours, his budget may be balanced (G = T), in deficit (G > T) or in surplus (G < T). When you interact, only three outcomes are possible.

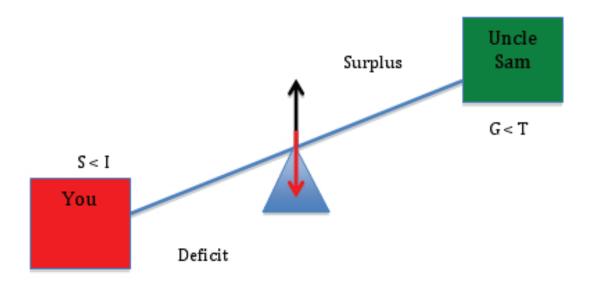
First, it is conceivable that (S = I) and (G = T) so

that (S - I) = 0 and (G - T) = 0. When this condition holds, the teeter-totter will level off with each of you experiencing a balanced budget.

In the above scenario, the government is balancing its receipts (T) and expenditures (G), and you are balancing your savings and investment spending. There is no net gain/loss.

But suppose the government begins to spend more

system – every payment must come from somewhere and end up somewhere – one sector's surplus is always the other sector's deficit. As the government "tightens" its belt, it "lightens" its load on the teeter-totter, shifting the relative burden onto you. This is not rocket science, but it appears to befuddle scores of educated people, including President Obama, who said, "small businesses and families are tightening their belts. Their government should, too." This kind of rhetoric may temporarily



than it collects in taxes (i.e. G > T). How will Uncle Sam's deficit affect your position on the teetertotter? The answer is as straightforward as increasing the mass of the person on the right-hand side of the seesaw. As Uncle Sam's financial position turns negative, your financial position turns positive.

This should make intuitive as well as mathematical sense, because when Uncle Sam runs a deficit, you receive more financial assets than you lose through taxation. Put simply, Uncle Sam's deficit lifts you into a surplus position. Moreover, bigger deficits mean bigger surpluses for you.

Finally, let's see what happens when Uncle Sam tightens his belt. Suppose, for example, that we were able to duplicate the much-coveted surpluses of 1999-2001. What would (and did!) happen to the private sector's financial position?

Because the economy's financial flows are a closed

boost his approval ratings, but the policy itself will undermine the efforts of the very families and small businesses that are trying to improve their financial positions.

The policy implications of MMT for the Eurozone would seem to be more bookkeeping deficits at the level where the fiat currency – the Euro – is created and the transfer of such new amounts of liquidity to areas where private sector demand is weak. This implies that traditional austerity for governments will not produce economic growth as it will shrink government demand at the same time as private sector demand is insufficient.

Sovereign governments using the Euro, like states members of the United States which use the dollar as their currency, will need more direct access to the issuer of the Euro so that they will be able to rely less on the private financial system and taxpayers to provide them with spending liquidity.

A CHINESE PHILOSOPHY FOR CORPORATE SOCIAL RESPONSIBILITY

Stephen B. Young Global Executive Director Caux Round Table Harmonious relationships have long been central to Chinese thinking about how best to live. At present, the goal of the Chinese Communist Party is to build a "harmonious society."

Mencius advised: "Opportunities of time given by Heaven are not equal to the situational advantages afforded by Earth, which are not equal to the power that arises with the accord of men. (Bk II, Part II, Chpt 1, 1) Success then arises when the time allotted by Heaven aligns with the conditions created by Earth and the willing agreement of others to cooperate. Being in harmony thus facilitates achievement."

But Chinese thinkers have differed widely in their understanding of how best to achieve harmony. For Taoists and believers in Five Element/Yin Yang energies, as are revealed in the Yi Ching for example, harmony is dynamic, ever fluid, ever changing. It is a natural order into which we must fit ourselves. The statesman QuanZi opted for state intervention in markets as a buyer or seller to take advantage of pricing preferences in order to advance public objectives. For example, he proposed that the state should buy grain when the price was low to help farmers but sell from its inventory of grain when the price was high to help those in the cities. In this way the state would harmonize the price of grain over time and so constructively stabilize the relationship between sellers and buyers.

For MoZi harmony was more static; it laid in personal submission to a chain of command running up to Heaven through Imperial officialdom. MoZi's recommended harmony was closer to a fixed order than to a perpetually, spontaneously self-regenerating equilibrium of influences and tendencies. Confucius took a middle position where virtuous individuals willed themselves to harmonious relationships with others through self-mastery and by following the norms of proper conduct. For him there was both a non-directed openness to the process of finding harmony and the conformity of specified, set behaviors upholding a social hierarchy. But under the influence of later writers, the concept of filial piety, articulated by Confucius, became the mainstay of imperial social conformity where strict obedience to the male heads of families was proposed as the highest form of harmony among people.

Corporate Social Responsibility (CSR) seeks to promote worthwhile behaviors within free markets where owners of private property make decisions as they see fit. Thus, CSR needs to accommodate its recommendations to the fluid, open social and political architecture of market mechanisms. CSR presumes autonomy in decision-making and not directive allocation of market power and opportunities. Thus, CSR needs a philosophy that can be internalized by decision-makers as influencing their choices among market alternatives. CSR demands a philosophy that is horizontal across market participants, and those affected by markets, not a vertical jurisprudence of hierarchical command and control.

ing such equilibria is always on the edge of chaos should individual decision-makers pull away from sensible cooperation and reciprocity.

Finding such horizontal harmony parallels the CSR endeavor to align a firm constructively and profitably with its various stakeholders. A firm with monopoly or other forms of market power (rent seeking) finds itself in horizontal relationships of reciprocity and mutual advantage with its customers, employers, those who provide it with capitalshort term and long, equity and debt, its suppliers, its interactions with competitors and the introduction of new technologies, with the environment, with civil society and with regulatory public power.



Such an ethic is easily found among certain notable ancient Chinese writers. It is a harmony of checks and balances, of reciprocity, of blending in with circumstances. The resulting harmony is a dynamic equilibrium that results from self-considered, autonomous interactions, not a static one imposed as a template by a power center on subordinates. The harmony achieved again and again through reach-

A philosophy that promotes optimal engagement with such stakeholders brings CSR perspectives to a firm.

FIVE ELEMENTS/YIN-YANG

A very ancient and culturally pervasive Chinese

approach to harmony as a fundamental expectation was articulated in the various studies of Qi, the energizing power that sustains creation in all its manifestations. Qi was believed to express itself in two primary states - Yin and Yang. Yin and Yang would combine in various mixtures to provide for the variety of things present in creation. The name given to the most influential of these combinations was the Five Elements – wood, fire, metal, water, and earth. Such combinations, and changes thereto, occurred in patterns and systems according to formulae and repetitive sequences. The flow of Qi through Yin and Yang and all the intermediate combinations brought balance and harmony to creation. When Qi could not flow properly, or one of its forces was too intense and so out of balance, disequilibria would occur and harmony would be lost. It would then be important to restore balance by bringing in an opposing force – Yin to offset Yang and vice-versa.

The Chinese calendar was designed to chart the cyclical flow of Qi through time, with each year dominated by a particular combination of Yin and Yang constraints. A short cycle took 60 lunar years to complete and a great cycle 360 such years. The beginning of each new year ushered in a new set of possibilities and probabilities conforming to the relative balance of Yin and Yang for that year. So, for example, a Dragon year would be more favorable to certain eventualities than a Monkey year while the activities likely to prosper in a Monkey year would not be so favored in a Dragon year.

Chinese medicine, including acupuncture, was developed to harmonize the flow of Qi within the body. Qi Gong emerged as a set of physical exercises designed similarly to open up the channels of Qi within the body to promote good health through the attainment of balanced flows and harmonized states of Qi.

Experts concluded that human affairs would prosper more robustly if aligned with powerful flows of Qi. Thus astrology was developed to ascertain good fortune along with opposing frustrations and setbacks as destined for an individual according to the alignment of his or her birth with the directions and potentials of Qi present at that moment. Feng Shui studied the flows and concentrations of Yin and Yang in the earth so that houses and tombs

could be auspiciously located to draw upon sustaining energy at such a site.

Securing a harmonious alignment with great power brought about, so it was and is thought by many Chinese, more felicity and prosperity. Studying the flows of Qi in all its forms showed the best way forward to mastery of time and circumstance. The Qi made a path or Tao through time and space which, if found and followed, lead to fulfillment.

THE DOCTRINE OF THE MEAN

Perhaps the most classic statement of pursuing horizontal harmony was presented by the text known as the *Doctrine of the Mean*. This work is attributed to the grandson of Confucius.

The operative concept for harmony in the Doctrine of the Mean is walking a path, one set out by Heaven itself. Keeping to the path provides a course of centering that avoids extremes, which lie off the path. In Chinese the path is called the Tao, or way. It appears in the Doctrine of the Mean as a natural reality existing prior to human intention and always impervious to human contriving. Finding harmony is the mindful following of a natural spontaneity that twists and turns of its own accord.

To find and then follow the Tao, it is recommended by the Doctrine of the Mean, that there be "no stirrings of pleasure, anger, sorrow or joy" so that the mind may be in a state of equilibrium. But when feelings are stirred, they should be kept in due degree which is harmony. Equilibrium is the great root of good actions while harmony is the universal path within which action should be confined. The text affirms: "Let the states of equilibrium and harmony exist in perfection, and a happy order will prevail throughout heaven and earth, and all things will be nourished and flourish." (Chpt I, 5) Keeping to equilibrium and harmony is the path of the Mean.

Thus, autonomy, individualism, working through interactions under the influence of a balanced mind, arrives at order. For enterprises, CSR concerns give balance to the means of seeking profit and advantage in keeping with this recommendation.

Previously, Confucius had said "Perfect is the virtue which is according to the Mean. ... The virtuous person embodies the course of the Mean; the petty person acts contrary to the course of the Mean." (Chpt II) "The Tao is not far from man. When men try to pursue a course which is far from the common indications of consciousness, this course cannot be considered that of the Tao." (Chpt XII,4) "When one cultivates to the utmost the principles of his nature and exercises them on the principle of reciprocity, he is not far from the Tao." (Chpt XIII, 3)

Attaining to the Mean in our actions saps our energies. Thus, it is a demanding course but suited for those who can access reserves of will and strength. Confucius noted that a virtuous person cultivates harmony without being weak. "How firm he is in his strength! He stands erect in the middle without inclining to either side. How firm he is in his strength!" (Chpt X, 5)

At a later point, the Text provides a description of one who has attained great mastery of the openness and ego-control that permits following the Mean. It is a description of an excellent leader, even one in private business:

Quick in apprehension, clear in discernment, of far-reaching intelligence and all-embracing knowledge; magnanimous, generous, benign and mild; assertive, energetic, firm and enduring; self-adjusted, grave, never swerving from the Mean and correct; accomplished, distinctive, concentrative, and searching (Chpt XXXI, I).

As would be appropriate for the circumstance, such a person is fitted to exercise rule, to forbear, maintain a firm hold, command reverence, and exercise discrimination. (ibid)

Following the path of the Mean is quite practical: "The way of a person of virtue may be compared to what takes place in travelling, when to go a distance we must first traverse the space that is near, and in ascending a height, we must begin from the lower ground." (Chpt XV, I) Thus, finding harmony demands taking into account our immediate sur-

roundings and responding to them. We do not impose ourselves upon conditions. One should harmonize with the times of heaven above and below conform to the earth and the waters. (Chpt XXX, I)

THE TAO TE CHING

The text of the Tao Te Ching is as explicit as the Doctrine of the Mean on the necessity for harmony to be natural and not contrived as a form of imposed social order. The text argues for an open submissiveness of self, overcoming ego-intentionality, as the way to harmony. Thus the person finds harmony by being empty and receptive to what comes along. The Tao is like an empty bowl: it blunts sharp edges, unties all tangles, harmonizes all lights, unites the world into one whole. Harmony emerges not from exertion and force but from acceptance. (Tao Te Ching 4)

"Heaven lasts long, and Earth abides. What is the secret of their durability? Is it not because they do not live for themselves that they can live so long?" (Tao Te Ching 6) The inference here is that by taking care of others, one best takes care of oneself. That insight, applied to business, supports the CSR approach to sustainable profitability. Taking care of stakeholders leads to success for the business.

Difficult and easy complement each other. Long and short exhibit each other. High and low set measure to each other. Voice and sound harmonize each other. Back and front follow each other (Tao Te Ching 2). Bend and you will be whole. Curl and you will be straight. Keep empty and you will be filled. Have little and you will gain. Have much and you will be confused (Tao Te Ching 22).

Differences are not inconsistent with harmony according to the Tao Te Ching; they make harmonious outcomes possible.

What we make should be useful to others: "We make a vessel from a lump of clay; It is the empty space within the vessel that makes it useful. We

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make doors and windows for a room; but it is these empty spaces that make the room livable. Thus while the tangible has advantages, it is the intangible that makes it useful." (Tao Te Ching 11) Form and emptiness reciprocate one with the other to bring forth advantage naturally and harmoniously.

When a leader is successful and things have been accomplished, all the people say "We ourselves have achieved it." (Tao Te Ching 17) A hidden hand did not interfere with spontaneity and the work was done to the satisfaction of all. Just so should businesses benefit from market freedoms. "To tamper with it is to spoil it, and to grasp it is to lose it." (Tao Te Ching 29) "The use of the Tao consists in softness." (Tao Te Ching 39)

Relying on timeliness leads to fitting outcomes without striving or ordering events to come to pass: "In fact for all this there is a time for going ahead and a time for following behind; a time for slow-breathing and a time for fast breathing; a time to grow in strength and a time to decay; a time to be up and a time to be down." (Tao Te Ching 29) "In

handling affairs people often spoil them just at the point of success. With heedfulness in the beginning and patience at the end, nothing will be spoiled." (Tao Te Ching 64) Mindful concentration leads to success without imposing one's power on others, leaving social space for achieving equilibrium among interested parties.

MENCIUS

Mencius, who forcefully argued for the Confucian vision of virtue against rival schools of thought, was most explicit on the possibility of achieving horizontal harmony:

Mencius famously scolded King Hui of Wei-Liang for seeking "profit" for his kingdom. Mencius advocated that, rather than seek for himself, the King should instead dispense humane actions and encourage structured social interactions. Mencius' was promoting the accumulation of forms of social capital so that individuals would be more prone to find success in their endeavors. Mencius un-

derstood that open systems where equilibria must emerge from free interactions demanded more social capital than did closed systems of command and control. The social capital promoted by Mencius, and by Confucius before him, was known as virtue (te) and embraced a range of beliefs and behaviors, including propriety and the moralization of the self. Mencius rejected the order imposed by hierarchy to favor more freely chosen outcomes. He affirmed that human actions brought forth peace and security and that social reciprocity brought forth correctness, a form of harmonious equilibrium. (Bk IV, Part I, Chpt X, 2)

Mencius urged the king to dispense a benevolent government to the people, sparing in the use of punishments and fines, and making taxes and levies light so that private activity could flourish and fields would be plowed deep and the weeding of them carefully attended to. (Bk I, Part I, Chpt V, 3) More prosperity would result from individual initiative than from directed state interference in private lives. Governing by humane actions secures the tranquility – a state of harmony – for all under Heaven. (BkIV, Part I, Chpt 1, 1) "The people turn to rule by humane actions as water flows downhill and as wild beasts fly to the wilderness." (BkIV, Part I, Chpt IX, 2)

Even kings were to be chosen by some form of popular choice where openness would bring forth the most suited person for the position. (Bk V, part I, Chpt V) Beneficial results flowed from allowing people to seek their own equilibrium through mutual thoughtfulness. "When one subdues men by virtue, in their hearts' core they are pleased and sincerely submit..." (Bk II, Part I, Chpt V, 2) Order and harmony result from the use of virtue rather than force. "He who finds the proper course has many to assist him. He who loses the proper course has few to assist him." (Bk II, Part II, Chpt 1, 4)

Regarding optimal economic outcomes, Mencius was clear that free exchange brought about an equilibrium between buyers and sellers, makers and purchasers: "The getting those various articles in exchange for grain is not oppressive to the potter and the founder, and the potter and the founder in their turn in exchanging their various articles for grain are not oppressive to the farmer." (Bk III, Part I, Chpt IV, 5) "If you do not have an intercom-

munication of the productions of labor, and an interchange of services, so that one from his surplus may supply the deficiency of another, the farmers will have a superfluity of grain and women will have a superfluity of cloth." (Bk III, Part II, Chpt IV, 3) "If large shoes and small shoes were of the same price, who would make them?" (Bk III, Part I, Chpt V, 18)

CONFUCIUS

The recommendations of Confucius as presented in the *Analects* do not expressly discuss harmony as a primary normative goal for the just social order. But indirectly we may easily conclude that a valued outcome expected from his recommendations and observations was indeed a harmonious society.

For Confucius smooth ordering of society was an inevitable result of his prescriptions for ethical behavior. He presented a role specific concept of correct behavior under which, if each person should properly live out the responsibilities and obligations of his or her social status, there would be harmony among all. He believed strongly that there would be orderliness and not chaos if "a lord should lord, a minister minister, a father father and a son son" (Bk XII, Chpt XI, 2). Accordingly, the first task of those in authority was to "rectify names". (Bk XIII, Chpt III, 2) Language and names shaped behavior through prescription of the correct and proper behaviors attached to each status and position. He believed that "when agreements are made according to what is proper for each status, what is spoken can be made good". (Bk I, Chpt XIII) When language and so social conventions aligned with actions, society would avoid discord and dysfunction, self-seeking and abuse of one by another.

The requirements of a position – lord, minister, father, son, etc. – set a mean for behavior such that one should neither fall short nor go too far of what was proper.

Social positions were set in relation one to another. Behaving properly towards another function or office, such as filial piety or brotherly affection, created balance and harmony among individuals. Confucius said accordingly that "reciprocity" would serve as the one word needed as a rule of practice

for all one's life, adding that what one did not want done to oneself should not be done to others. (Bk XV, Chpt XXIII)

Such a prescription for social harmony demanded rigorous self control. Possession of such self-control was the virtue he called for in righteous individuals. One who aspired to superior achievement in this regard should give thoughtful consideration to seeing clearly, hearing distinctly, keeping the countenance benign, speaking sincerely, being reverently careful in business, anxiously questioning others about doubts, thinking of the difficulties that come with getting angry, and thinking of righteousness when gain can be got. Such a person would not ruffle feathers or cause disputes or fall short in the performance of duty. (BK XVI, Chpt X) Confucius believed that it was advantageous to arrange relationships so that there would be no litigations. (Bk XII, Chpt XIII)

The person with virtue could subdue the self and return to propriety. The power of virtue permits such a person to look not at what is contrary to propriety; listen not to what is contrary to propriety; speak not what is contrary to propriety; make no movement which is contrary to propriety. This course of disciplined conduct leads to humane actions where the love of superiority, boasting, resentments and covetousness are repressed. (Bk XII, Chpt I, 1; Bk XIV, Chpt II, 1) One capable of acting humanely wishing to establish himself seeks also to establish others; wishing to be enlarged himself, seeks also to enlarge others. (BkVI, Chpt XXVIII, 2)

Propriety contributes to harmony in that it prevents boldness from becoming insubordination and straightforwardness from becoming rudeness. (Bk VIII, Chpt II,1) Society will become more harmonious with such paragons present and active, Confucius believed, for inferiors would conform to the role responsibilities of the more virtuous as "the grass must bend when the wind blows across it." (Bk XII, Chpt XIX) If people are led by the power of virtue, and common rules of behavior given them by the stipulated norms of propriety, they will have a sense of shame and will become good, leading to mutuality and social harmony. (Bk II, Chpt III, 2)

Since what such a virtuous person seeks is in himself and not in others, virtue and propriety lead one

to living in harmony with others. (BkXV, Chpt XX) Such a virtuous person cultivates himself so as to give rest to others. (BkXIV, Chpt XLV) The man of virtue will consider righteousness to be essential and will not live at the expense of injuring his virtue. (Bk XV, Chpt VIII; BkXV, Chpt XVII) The person animated by the power of virtue does not set his mind either for or against anything; what is his duty to others he will follow. (BkIV, Chpt X) Not to be dutiful reflects a lack of courage. (Bk II, Chpt XXIV, 2)

Confucius accepted the proposition that sincerely holding fast to the Mean would forestall distress in society and that going beyond is as wrong as falling short. (Bk XX, Chpt I, 1; Bk XI, Chpt XV, 3)

MOZI

While the central thrust of MoZi's jurisprudence was a centralized hierarchy of command and control as necessary for order and peace in human affairs, he coupled this recommendation with a horizontal ethic he called *jian ai* or "universal love". Universal love was to be promoted, MoZi urged, in order that individuals would live in peace and harmony with one another. His assessment was that if selfish egoism were replaced by magnanimity, there would be no conflicts. The cause of disorder, Mo Zi wrote, was the want of mutual love. "As he loves himself and not his father, the son benefits himself to the disadvantage of his father. When the father loves only himself and not the son, he benefits himself to the disadvantage of the son." (Universal Love I) Mo Zi desired that everyone should love universally, without ego centricity," loving others as oneself". "Now, since partiality against one another is the cause of the major calamities in the empire, then partiality is wrong." (Universal Love,

"When nobody in the world", he wrote, "loves any other, naturally the strong will overpower the weak, the many will oppress the few, the wealthy will mock the poor, the honored will disdain the humble, the cunning will deceive the simple." (Universal Love, II) But if Universal Love were to prevail, then, he concluded: states would not attack each other, houses would not disturb each other, thieves and robbers would become extinct; emperor





and ministers, fathers and sons, all would become affectionate and filial.

GUAN ZI

Guan Zi, a great minister in the feudal state of Qi, left a practical manual of statecraft. While his aim was to reinforce the power of the prince, he accepted the reality that a prince could not direct events and so had to ride along the ebbs and flows of circumstance, an echo of a Five Elements/Yin Yang approach to living.

"Of the former kings, those who used one Yin and two Yang became shoguns, Those who used pure Yang became kings. Those who used one Yang and two Yin declined. And those who used nothing but pure Yin perished." (p.221)

wife will be obedient. ... If the father and mother are cruel and lacking in graciousness, the son and his wife will not treat them as parents." (p. 61)

Heaven maintains flourishing in the world through its constant activities – the successive states of Yin and Yang operative energies. "When activities are properly carried out, there is order; when they are neglected, there is disorder." (p. 63) So, for example, as long as Earth does not alter its regular activities, all things will have life." (ibid)

In line with Mencius, the Guan Zi text recognizes that a ruler may not impose himself on the people: hierarchy arises when people willingly submit in a process similar to that arising among horizontal relationships seeking mutual indulgence. "When the speech of the ruler of men conforms to principle and accords with the sentiments of the people, the



So for example, the Guan Zi text note that social relationships are reciprocal in an echo of Confucius and cannot be commanded: "If the father and mother are unfailingly compassionate, the son and his

people will accept his instructions." (p.66) "People follow after benefits just as water runs downhill. Therefore those who wish to make the people come must first initiate benefits for them. Then, even

though not summoned, the people will arrive by themselves." (p. 71) Order and harmony in the realm will spontaneously arise from the uncoordinated actions of people following their natural instincts. "When the Tao is followed, the prince and his ministers have a close relationship, fathers and sons feel secure, and all living things are nurtured." (p.68) "When one adheres to the way of Heaven, all his or her undertakings will appear to be spontaneous." (p. 82) Therefore, "contrived goodness is not goodness." (p.218)

The way is manifested in a person in the heart/mind. Thus, obtaining order through spontaneous individual action demands that each individual cultivate the fitting mental orientation to self and life. (p. 216)

HAN FEIZI

Han Feizi wrote that "Tao is the beginning of the myriad things, the standard of right and wrong... Therefore by resting empty and reposed, one waits for the course of nature to enforce itself so that all names will be defined of themselves and all affairs will be settled of themselves." (Vol I, p. 31) "Let roosters herald the dawn and let cats watch for rats." (Vol. p. 53)

Han Feizi's advice was directed to rulers so that they could successfully use the workings of Tao to augment their power and control. He took a horizontal principle of spontaneity and used it to enforce a vertical command structure centered on a ruler who followed the Tao and not his own pleasures and whims.

Han Feizi saw that the law functioned in imitation of the Tao – standing above human partiality as a kind of Mean that should not be abandoned to the left or to the right, neither unreached nor overpassed. So, for example, he recommended to rulers that, "the intelligent sovereign makes the law select men and makes no arbitrary promotion himself." (Vol I, p. 40) "Though he has a mouth of his own, he never speaks for his own advantage; though he has eyes of his own, he never sees for his private interest." (ibid)

CONCLUSION

The forms of Chinese ethical thought that seek to promote horizontal harmonizing through dynamic equilibriums of agreement and interest provide as well a philosophy for contemporary corporate social responsibility.

Strategic CSR understands that the profitability of any business turns on successful engagement with key stakeholders, especially with customers, employees, owners, creditors and suppliers. Putting those relationships on a basis of mutuality and interdependence enhances the reliability of firm profits over time. A dynamic harmony coordinating the firm with its stakeholders becomes a strategic goal for business success. Obligations of reciprocity with and respect towards others coincide with self-interest in making profits.

A Chinese framework for CSR of seeking harmony is suitable and will bring advantage to the enterprise.

CENTESIMUS ANNUS: RETROSPECT AND PROSPECT

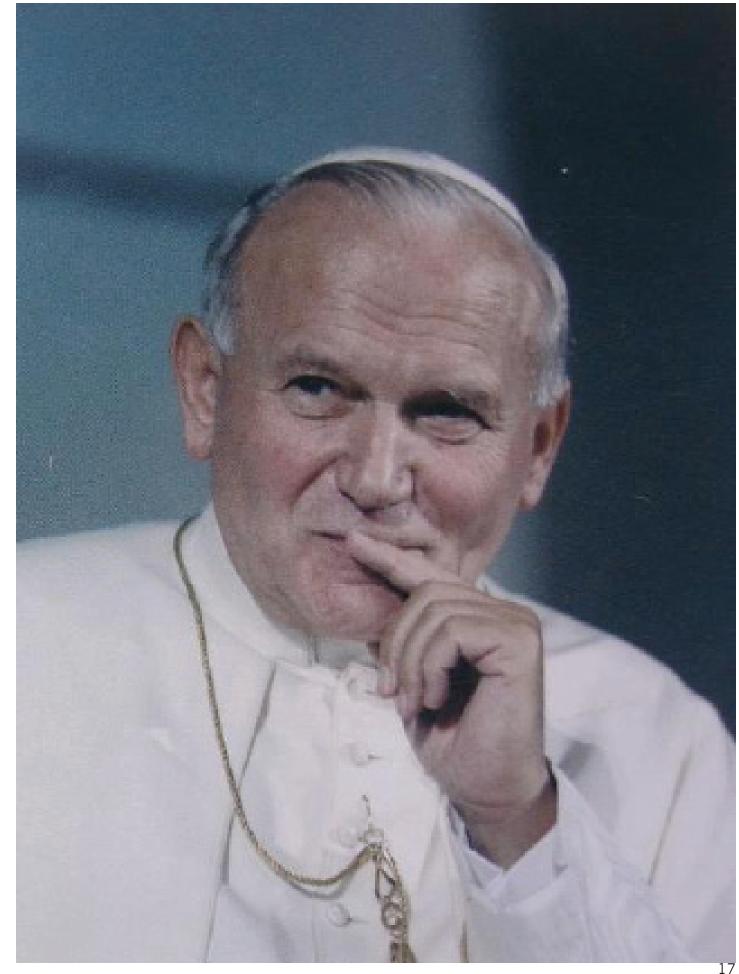
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INTRODUCTION

In 1991 Pope John Paul II issued the encyclical "Centesimus Annus" (CA) in order to reflect back and recognize and honor the hundredth anniversary of Leo XIII's great encyclical, "Rerum Novarum". Many other documents had (and have) been issued on other anniversaries of "Rerum Novarum" including "Quadragesimo Anno" in 1931, "Mater et Magistra" in 1961 and "Octogesima Adveniens" in 1971. At the same time, John Paul was proposing a vision of the economy in the aftermath of the collapse of communism in Eastern Europe and the end of the cold war conflicts in the Third World.

Within the Catholic Church "Rerum Novarum" was and is held in special esteem for it was the beginning of the development of an extensive and very rich body of social doctrine that has resulted in the publication of many encyclicals and other documents by popes and the Vatican as well as documents issued by many conferences of bishops. Although all of these documents are written within the context of Catholic theology and culture they have certainly reached and had an impact on many from other faiths. It is interesting to note that although the early encyclicals were addressed primarily to Catholics, many of the encyclicals in recent years have been addressed not only to Catholics but also to "all the Christian Faithful and to all men and women of good will." Over the years the teachings of the encyclicals have had impact through various channels. Priests across the country greatly influenced the labor movement. Franklin Delano Roosevelt was influenced by Msgr. John Ryan, one of the great advocates of social justice. My own first exposure to Catholic Social Thought was in a course taught by one of the men who organized the steel mills in Buffalo, New York. The US bishops' pastoral letter, "Economic Justice for All", was required reading in some of our leading business schools, Harvard is a good example. Even popular culture has been impacted by movies drawing on Catholic Social Thought like "On the Waterfront" and "Romero."

Recently I was amazed when I discovered that several of my non-Catholic friends had Studied Benedict XVI's encyclical Caritas in Veritate before me. I asked one of them, who serves on the Theology faculty of a major seminary, to explain the enthu-



siasm. He responded, "You Catholics are graced to have your structure and traditions that facilitate a body of doctrine and thought being developed over time. As a scholar, this attracts me. There is some very good work in my tradition but it tends to be disjointed."

Near the end of the Encyclical John Paul wrote, "The present Encyclical has looked at the past, but above all it is directed to the future. Like "Rerum" Novarum", it comes almost at the threshold of a new century, and its intention, with God's help, is to prepare for that moment." (62) (refers to paragraph in CA.) This paper will examine a few of the critical points raised by Leo XIII and emphasized again by John Paul II as well as new issues raised in CA and ask if it was prophetic and how well governments, other institutions, and individuals have responded. A social encyclical is not meant to be a highly technical and prescriptive document. It is to lay out first principles and a vision to guide us in the professions as we direct technology, knowledge and other resources to the service of the human person. This broad base of first principles always holds the danger of being interpreted in many ways. And so it was after CA was published.

ONE INTERPRETS AS ONE DESIRES TO INTERPRET

CA has had a rather broad base of acceptance but it seems to have been placed on a procrustean bed and forced to fit many needs and preconceived ideas. In an article published earlier this year, Matthew Schadle found three broad categories of interpretation.

"Perhaps the most eager interpreters of the encyclical have been the neoconservatives, who see the encyclical as a qualified endorsement of the free market economy. The second interpretation of the encyclical is that of the progressives, which claims that the encyclical offers a greater role to the state in regulating the economy than is recognized by the neoconservatives, and that the encyclical is largely consistent with the earlier social encyclicals as well as the United States bishops 1986 Economic Justice for All. The third interpretation is, for lack of a better term, communitarian, arguing that far from endorsing capitalism, CA presents a radical redefinition of the "free" economy as centered on gift giving rather than self-interested exchange."¹

Little purpose is served if one approaches the encyclicals in search of support for one or another system. And Catholic Social Thought is not a third way. There may be condemnation of a system, such as atheistic communism, which is totally contrary to non-negotiable fundamentals; in this case, a faulty anthropology, non-acceptance of the truth that the dignity of the human person is grounded in divine love. Rather, the encyclicals provide fundamental principles and authentic vision for direct human action. In 1993 Michael Novak wrote, "We are all capitalist now, even the Pope." Although the neoconservatives went too far there are points made by John Paul II that echo the thinking of the neoconservatives. As Novak notes, creativity is a fundamental aspect of the human person in CA. John Paul wrote," besides the earth, man's principle resource is man himself." (34) CA also demonstrates a carefully articulated distinction between the "assistance state" which can destroy the spirit of the individual and the "welfare state" which properly can humanize a person. (48) CA also provides of the need to develop and maintain intermediate organizations. The decline of these organizations, be they churches, volunteer fire departments, or service organizations is well documented by scholars like Robert Putnam or Robert Bellah. John Paul gave great emphasis in CA to the role of culture for there is no possibility for a healthy society without a healthy culture. This raises many issues such as, is a healthy culture and society possible with the work demands we place on people in today's society?

Possibly the most troublesome aspect of the neoconservative analysis of the Encyclical is that they stress its discontinuity with the century of documents before it. Certainly there was evolution and change, but it seems impossible to me to dispute CA's continuity on first principles and the vision of the conditions necessary for the human person to flourish and achieve the fullness of his or her dignity. The progressives, on the other hand, read it as largely in continuity with the past documents.

The progressives, although they recognize the value of subsidiarity, call for a greater role for government in society than do the neoconservatives and find that their position is justified by John Paul's analysis. John Paul certainly reaffirms the principles of the universal destination of goods, solidarity and the common good. It can be argued, I believe, that these three principles are more important today than they were in 1991. The conflict between the positions of the neoconservatives and the progressives is at the absolute core of the political debates in the USA, be it on the national level in the presidential race or at local levels, such as the recall of the governor in Wisconsin. The neoconservative is not concerned by huge income disparities being created by advances in science and technology. The thought of a progressive tax code is abhorrent. The impact of ownership of a skybox in the local football stadium is never considered. John Paul was certainly aware of the impact of technology, knowledge capital and the importance of community. (CA stresses culture into which community is embedded.)

Community appears to be important bedrock of the communitarian interpretation of CA. Shadle captures some of the key concepts of the communitarian approach as follows:

"A proper understanding of CA, according to the communitarians, shows that the moral-cultural sphere, and specifically the church, must not only provide limits for the economic sphere, but must in fact give economic life a concrete form based on a proper understanding of the human person as first of all a being whose existence is a gift from God. This interpretation of CA leads at least some communitarians to propose a radical re-visioning of the free economy as an economy of gift." 3

Although many of the concepts developed in CA are consistent with the full communitarian model it does not appear in any way to be "the" model being proposed by John Paul II. There are examples, such as Mondragon in the Basque region and Focalare in Italy and elsewhere, of the communitarian model apparently thriving maybe because of some characteristic of the local or national culture. One characteristic of all of the movements is an emphasis on human dignity that reflects his most profound work beginning with The Acting Person, written years before he became pope.

HUMAN DIGNITY

As John Paul places CA in the context of the other social encyclicals as well as in the greater context of Catholic Social Thought, he praises those individuals and "various groups, associations, and organizations ... a great movement for the defense of the human person and the safeguarding of human dignity." "This movement has contributed to the building up of a more just society or at least the curbing of injustice." (3) John Paul was fully aware of the human dignity issues of his day and addressed most of them in the various documents he authored.

Twenty years later, in 20ll, can we still make a claim to advancing human dignity? Yes, there are maybe more groups, religious, civic/volunteer, NGO, governmental, than ever before in the field serving the cause of human dignity. The growth of groups like the Caux Round Table enables one to be optimistic. The increase in the visibility of documents like the Universal Code of Human Rights is important. But on the other hand, the use of drones and other forms of military weapons, the rapid growth of human trafficking, especially sex trafficking, the impersonalization that accompanies much of technology, the drug culture, the decline of the labor movement, and the growing objectification of women are just some examples of the attacks on human dignity in our era. One can argue that the rapid growth of the slums in the cities of the Third World, as well as ever greater dehumanization of the poor areas of cities in the West, certainly are destructive of human dignity.

The agenda of issues to address is endless and

there are no easy answers. Some, such as sex trafficking, must be addressed on a global level. Others are best addressed on the local level. The resources needed will be huge in this era of seemingly ever greater scarcity. Possibly the issues most important to address are education and developing the will to act. Educational institutions at all levels must teach at authentic understanding of the human person, one that goes beyond what the behavioral sciences have to offer, and of human dignity. This must then be translated into the desire, the will, to act. This can be part of the education we offer our students, but it also calls for action by our various civic and professional groups. Finally, as noted above, the principle of subsidiarity must be applied. The sex trade is a global action calling for a global response. Teaching children not to be bullies calls for action by parents and teachers in the local school.

THE DEVELOPING CHASM BETWEEN CLASSES

John Paul reviewed several of the key points made in RN and the vast changes, in his words, "in the historical process, that had been taking place for some years in society, state, and authority," (4) but with a particular emphasis on economics and science.

"In the sphere of economics, in which scientific discoveries and their practical application come together, new structures for the production of consumer goods had progressively taken shape. A new form of property had appeared – capital, and a new form of labor – labor for wages, characterized by high rates of production which lacked due regard for sex, age or family situation, and were determined solely by efficiency, with a view to increasing profits." (4)

In the eyes of Leo, labor had become a commodity with the worker not even being assured that he/ she would be able to sell that commodity. Of course in the late nineteenth century any form of social security or a safety net was rare. The key point

made by Leo as we in 2012 look back on RN and CA may be "The result of this transformation was a society" divided into two classes, separated by a deep chasm." (4) Although great progress was made in developing a middle class, thanks in part to the messages of RN, and closing the chasm between rich and poor between RN and CA we are now into a historical period in the Western Countries where this chasm is growing and destroying families and societies. And although some third world countries may be developing a middle class, the majority are not.

JOHN PAUL'S REFLECTION ON CHANGE

John Paul knew that he was writing his encyclical, as was the case for Leo XIII, in an era of profound change driven by ideological, technical, political, social and economic factors. In politics, the result of these changes "was a new conception of society and of the state, and consequently of authority itself". (4) There was a new society, "one which brought the hope of new freedoms but also the threat of new forms of injustice and servitude." (4) John Paul's call, even more than Leo's, was to harness these changes for the service of the human person and the common good, especially in service to the poor.

We must ask ourselves, "Have we, wherever we have some influence, worked to ensure that the wealth generated by the new technologies is justly shared by all in our global society? As part of the recognition of the importance of private property, as recognized particularly by Leo XIII, do we recognize the universality of the use of all goods especially in this era where wealth is often intellectual property?"

John Paul noted that Leo saw a new society emerging in the 1890's – "one which brought the hope of new freedoms but also the threat of new forms of injustice and servitude." (4) Leo saw a society emerging that was "divided into two classes, separated by a deep chasm." (RN132) "At the same time in the political order the prevailing theme of the time sought to promote economic freedom by appropriate laws or, conversely, by a deliberate lack of any intervention." (4) John Paul was calling us to understand that this scenario was beginning to repeat itself. The technological and other changes

of this era are bringing immense benefits. But are the poor adequately sharing in these benefits? Why is the chasm between rich and poor growing? We see intervention to bring about greater justice disappearing and not developing where most needed. Why are we, both in the American society and also in the global society failing to bring about greater justice?

In his analyses of Rerum Novarum and its impact, he implied that Leo (and the Roman Catholic Church) had the credibility needed to analyze social realities, to make judgments about them and to indicate directions to be taken for the just resolution of the problems involved, and to make a solid contribution to moving justice forward in the World. We can argue that when John Paul wrote in 1991 he was able to make the same impact. Can we argue that in the years since 1991 that the Church has lost this credibility, even more sobering, that all of our major institutions have lost credibility. Scandals and misbehavior are a major cause for all this in all of our institutions, be it pedophilia and financial issues in the Church, exorbitant salaries and illegal or immoral financial manipulations in business, or governments that have lost the trust of citizens. On the other hand, technological and social changes challenge all institutions to change old paradigms of decision making and acting. Business firms can no longer act on theories grounded in Adam Smith's pin factory. The Catholic Church can no longer argue through its actions that only pope, cardinals and bishops can make the important decisions in the Church, only men can be pope, cardinals, or bishops, therefore only men can make the important decisions. (I am not advocating that the priesthood should be open to women.) Governments no longer have the trust of citizens and seem to be unable to tackle the most important problems facing our societies not only on a national level, but also internationally. In the United States, as labor watches a rapid retreat from the gains of the first 60 years of the past century, unions have become almost irrelevant. Our educational establishment is failing our youth, especially in our inner cities. Finally, possibly the institution deteriorating most rapidly is the family. Study after study emphasizes the importance of the family unit for the preparation and success of youth.

John Paul certainly affirmed the importance of all

of these institutions, as did several of the pontiffs before him. Possibly he recognizes how fast that would deteriorate or many of the causes of this deterioration. Nevertheless, John Paul in CA and many of his documents did call for the strengthening of the various institutions, and he always did so in a balanced way.

He asserts that the importance of private property and "the things necessary for one's personal development" (6) are to be affirmed. John Paul, on the other hand, affirms the complementary principle of the universal destination of the earth's good. This is a principle of significant importance in today's "knowledge-based economies" and world of "intellectual property", but one not being implemented as the chasms between rich and poor grow. Two major questions face those in business advocating corporate social responsibility and corporate citizenship. If a necessary condition for a stable society is private property, especially home ownership, how do we prevent the mortgage debacle of recent years? How do we change the compensation/reward structures in our society in a manner that will both reward initiative and creativity while enabling a system of private property that is just?

CONCLUSION

CA is rooted in 100 years of the first principles of Catholic Social Thought. But it is also focused on the issues of the day. It challenges us in an era of a growing chasm between rich and poor, the decline of the labor movement, and other changes to focus on the resolution of these justice issues.

¹ Matthew Shadle, Twenty Years of Interpreting Centesimus Annus, Journal of Catholic Social Thought, Vol 9, Number 1, Winter 2012

³ Ibid, page 183