Pegasus

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

–

Moral Capitalism At Work

6 West Fifth Street 300M
Saint Paul, MN 55102
1.651.223.2863
www.cauxroundtable.org

–

September 2012
Volume 2, Issue 9

Pegasus

Proceedings by Rich Broderick
Photos by Wai Wong-Lai

Initiative for Change Conference Center
Mountain House, Caux, Switzerland
July 29-31, 2012

1 Introduction

2 Proceedings of the Caux Round Table 2012 Global Dialogue
Needed: Cross-sector Leadership to Realize a Truly Sustainable Market Economy for Europe and the World

INTRODUCTION

The Caux Round Table (CRT) 2012 Global Dialogue took place during increasing concern about the ability of global capitalism to survive as a sustainable economic system. With the U.S. economy still mired in the after-effects of the 2008 housing bubble collapse, coupled with the very real prospect of a sovereign debt crisis in Greece, Italy, Spain and elsewhere threatening to dissolve the Eurozone, many people are wondering "What must be done?"

It was in this mixed atmosphere of anxiety and hope that participants in the Global Dialogue spent more than two days discussing several primary questions: how did we get here? How do we move forward toward a better future in which the undoubted benefits of capitalism are preserved while its equally undoubted liabilities are curbed, if not eliminated? How do we move from a global capitalism dominated by "I got mine," to one governed by the understanding that we are all in this together and that it is, above all else, the responsibility of those who have benefited most from the economic system to act as stewards for all of that system's stakeholders, including the global ecosystem upon which the survival of human civilization itself is dependent.

Confronted with these questions and more, presenters and responders engaged in vigorous discussions that took as their point of departure a clear-eyed, unsentimental examination of the causes of global capitalism's current malaise. These range from lack of effective moral leadership in all segments of society, but in particular – for purposes of this discussion – the business and financial communities to ineffective oversight and regulation to errant theories of both capitalism and the sources of human motivation to a more general collapse, certainly in the capitalist West, of traditional values and ethics mandating honesty, community, and compassion. The Global Dialogue culminated in calls for reform on both the micro and macro level, including stronger and more visionary leadership, a sense of shared stewardship by all stakeholders in the capitalist system, not just its leaders, and, above all, a resurgence of the moral and ethical values required to bring capitalism back on course, save it from its own excesses, and in the process continue to reap the benefits of increased productivity and lowered costs for everyone on the planet while preserving the planet on which we all must live.

SUNDAY, JULY 29 AT THE 27TH CRT GLOBAL DIALOGUE

KEYNOTE PRESENTATION
Crisis: Finance Economy, Politics Culture – What Drives The Dyfunctions of Our Times and What Can We Do?

PRESENTER
Maarten Zweers
Civil Engineer, Director and Critic

INTRODUCERS
Dr. Noel Purcell (Australia)
Chair, Caux Round Table Governing Board

Karel Noordzy (The Netherlands)
Member, Caux Governing Board

Following a reception on the Mountain House Terrace overlooking Lac Léman, Presenter Maarten Zweers, author and musician from the Netherlands, gave the keynote presentation Crisis: Finance, Economy, Politics, Culture – What Drives the Dysfunction of Our Times and What Can We Do? Zweers drew upon the universal lessons to be found in the operas of Beethoven, Mozart and Wagner, to argue that all causes and effects in the current global crisis are interconnected and interdependent and that today's crisis bears affinity to timeless problems facing the human race. But do we need a revolution or a reformation?

MONDAY, JULY 30 AT THE 27TH CRT GLOBAL DIALOGUE

WELCOMING REMARKS
Dr. Noel Purcell
Chair, CRT Governing Board

The first full day of the Global Dialogue began with opening remarks by Dr. Noel Purcell, the Chair of the Governing Board of the CRT.

Dr. Purcell said that for too long capitalism has been allowed to govern itself without a sense of moral capitalism. This has led to numerous things, including the financial crisis in Europe. In reacting to the crisis, there has been little time or effort to find long-term solutions. The system is broken and cannot be fixed with band-aids. We must step back, he said, and rebuild anew.

The fact is, he said, that governments, elected bodies, and regulators have a role to play in recovery, but the CRT believes that business itself needs to exert leadership as well. But where will this leadership come from? Will our business leaders rise to the occasion and chart the necessary direction and controls for the new world order?

It is critical, Purcell said, that this new generation of leaders in business, government and elsewhere respond to the fact that free and independent markets will not find equilibrium on their own. Fortunately, there is a growing recognition that we need something more than unfettered markets. Even this year's Davos Conference was filled with angst about the future of capitalism, and the British Prime Minister and French President have both called, in essence, for a moral capitalism; President Barack. Obama has made similar calls. As Adam Smith observed, capitalism works best when it is governed by moral values.

The CRT is a leader in developing principles by which capitalism can be governed by moral values. Still we are far short of where we need to be, even though most business leaders understand we must change the system. They will have to come out from behind their corporate walls and help in this task. They must begin to assert ethical leadership in business. They must realize that limited liability is an amazing power granted by society and in return business has a responsibility to society.

In my experience, Purcell said, it has always been clear the role incentives play in business, and unfortunately what we have seen is that most of the incentives have rewarded for unethical behavior.

I hope, he said, we will fashion this dialogue around four critical issues, the first of which is The Crisis of Capitalism: Why Did It Happen. Purcell then went on to introduce the facilitator for the opening session, Frank Straub.

OPENING SESSION
The Crisis of Capitalism: Why Did It Happen?

PRESENTER
Frank Straub (Germany)
Chairman, Blanco Co.
Member, CRT Governing Board

Opening statement by Frank Straub: Two reasons lie at the root of our crisis. First is mentality and thinking. The second is politics, said Straub.

On the first point, to individualism we can add materialism and egotism. We have seen a change in this, toward a culture of less solidarity and more egotism – the change is common to all societies today. On top of that, we observe more and more a "money world" where "money makes money" is a big credo in society. That money world has partially separated from the real world of products and services. The money world is linked to speculation, with money people taking care just of money and not people. The money world in banking is one of the reasons for our current crisis.

From the beginning banking was designed to help finance production and service, but today money is used only to make more money rather than assist production and service. Today we see speculation even in the necessities of life, such as food and there is no way that nation states on their own can stop it. There must be a global response.

The second root of the crisis is the lack of political leadership, especially in democratic societies. Politicians have by and large proven that they cannot deal with money. The tendency to overspend is worldwide – governments almost always spend more than they take in revenues.

Why? Because in democracies you have to be elected and to do that you have to make promises. Also we have more and more of a political class – individuals whose training and livelihood depend on their political positions. They don't have jobs outside political offices or parties. To this degree they must do everything they can to be elected. Mostly the responsibility for paying for these promises will come after the politicians who made the promises are no longer in office – i.e. as has happened in Greece.

What concerns me, Straub said, is that economic freedom is linked to political and personal freedom. When economic freedom is in jeopardy so is political and personal freedom. As long as these two freedoms are important to us than we must care for economic freedom. In the long run, people will not tolerate what is happening forever. Things will change, one way or the other.

Straub then turned the floor over to two commentators: Donald Delves, (USA) Founder and President, The Delves Group, and Sylvester Eijffinger, (The Netherlands), Professor of Financial Economics, Tilburg Unversity.

Don Delves' comments related to the underpinning of the financial crisis in the United States: It really goes back to the 1980s and two main forces at play, he said. One was the process of de- and re-regulation which began under Ronald Reagan, and the other was the rise of private capital investment funds with an emphasis on shareholder value.

Deregulation began with industries and was generally seen as positive. That led to a certain hubris that we don't need regulations at all. It was fine to deregulate operational industries but in the 1990s this led to the same kind of deregulation in accounting and financial industries. In accounting, there was a change to limited liability for partners – which led to the first economic crises, the dotcoms in 2000 and Enron in 2001. As a result of that we had re-regulation in the form of Sarbanes Oxley. It was a pretty good act in the end, mainly for its position of making the board of directors much more independent. Boards in the U.S. are vastly better than 10 years ago, and are no longer made up of the friends and confidantes of CEOs.

The other deregulation – and the worst – was the undoing of Glass-Steagall. Our hubris led us to combine banks, trading firms, commercial and investment banks and insurance companies with no walls between them. This led directly to the 2008 crisis. At the same time investment banks went from partnerships to publicly traded companies, thus reducing risk to partners.

The other trend was the rise of private capital investment funds, which began in the 1980s. It was seen as positive because CEOs became owners and began taking more risks and focusing intensely on shareholders and shareholder values above all else, but they lost sight of the idea that corporations exist to serve communities and stakeholders. In executive compensation, for example, we have gone way too far in the direction of rewarding shareholder value above all else.

Sylvestre Eijffinger comments: What began with a small, manageable problem in Greece two-and a-half years ago with some false data was intensified by political mismanagement. The crisis is now so severe that we doubt whether the Eurozone might survive. How could that happen? This crisis is not a financial crisis so much as a political/institutional crisis. In a word, we face complex problems and mediocre politicians.

What we have seen in the European sovereign debt crisis is that politicians have always been too little too late. The short-termism of politicians, reacting to the short-termism of financial markets and the short-termism of the media has created a kind of Bermuda triangle, where everything disappears – and the cost to the Eurozone has multiplied. If politicians had been wise or courageous enough to have undergone foreign exchange intervention, speculation would have been curbed. But politicians did not do this, and have lost credibility. This has made politicians even more reactive and that in turn made financial markets more reactive as it did with the media. So the answer is a coherent plan.

PARTICIPANT COMMENTS

Comment 1 | The problems Japan faces are exactly the same as the rest of the world. Individualism and egotism override community. Money cares only about money. Politicians are elected by people who want easy solutions and politicians make easy promises. But one phenomenon is specifically Japanese; that is the perpetuation of public investment. As a result we have ended up building non-priority public construction. This makes Japan very ugly. Massive public investments are not only devouring scenery but also the spirit of innovation in people.

Comment 2 | We are struck by the degree to which poachers have been made the gatekeepers. This is the reason why countries like Canada and Australia have largely avoided problems because bank regulators there were not chosen from investment bankers. As a result investment banks were not allowed to jump into things like sub-prime mortgages.

Comment 3 | For 20 years in the United States we have had Secretaries of the Treasury who were former executives of Goldman Sachs, so we have definitely had regulation of the banking industry by bankers themselves going to the very top.

Comment 4 | Is this just a western problem? In the Islamic world, my impression of this blaming the politicians is that it is not enough. Speculators are hiding behind politicians and democracy has been corrupted. Growth of lobbying has corrupted them. The real problems are that these speculators have been put in positions of authority to regulate their own industries. We are ignoring our responsibility to educate the public about where the problems lie and about what kind of politicians they should support.

Comment 5 | I do not like politician bashing. Many of them I know are honorable people. It is also one of the most accessible jobs you can have. If we at this table feel politicians are bad then perhaps we should run for office? We must also remember that there has been a huge shift over the past 40 years in wealth from the public to the private sector and so politicians today have less clout than they did a generation ago.

Comment 6 | I'm a former politician and in the old days business people encouraged other business people to run for office. We legitimately criticize politicians but we elect them.

Comment 7 | The loss of an independent news media is part of the problem. There has been a takeover of the news media by publicly traded companies.

Comment 8 | China is trying to emulate Western ways of doing things and is currently trying to create insurance companies to cover investment companies. On the other hand regulators in China are very strict.

When economies are growing it is possible to work together and solve problems but when economies stop growing that changes. Growth masks some of these problems.

Comment 9 | To find solutions to human problems we need to take a planetary view. There are proven concepts in nature to solve problems. If we can find ways of translating those that would be helpful.

People are educated and trained to love structures we have established and not taught that structures are created to serve people and the world. From that perspective structures are like opium. In order to solve problems, we create new structures and force people into them. We were much more effective when we decided to look at how people naturally behave and then create structures that reflect those behaviors.

Comment 10 | We must acknowledge as well the role higher education has played in creating the crisis. Over the past 35 to 40 years it is higher education that has given currency to a very restrictive view of management. We have stripped wisdom out of education, especially out of management education and no longer teach that structures are meant to serve people and not the other way around.

OPENING SESSION (CONT.)
The Crisis of Capitalism: Where Should We Go From Here?

FACILITATOR
Antoine Frem (Lebanon)
Chairman, Interstate Resources, Inc.

SPECIAL PRESENTATION
Syvester Eijiffinger
Professor of Financial Economics, Tilburg University

Antoine Frem opened the session with some introductory remarks: It is not speculation that is the problem per se but that capitalism and investment depend upon ethical values but are driven by speculation. What gets measured gets managed. So if all that is measured is the bottom line and short-term shareholder value that is what will receive incentives.

We must emphasize the personal accountability issue in the context of the crisis in capitalism. Let me give an analogy here: Some 85 percent of people who seek medical treatment in the U.S. do not need medical help. They need to adopt ways of healthy living. But we have created a system in which personal responsibility is devalued and responsibility diffused and blamed on "others."

If we want to ask why politicians are so bad, we must also look at the press for its role in creating that environment as well as the way the press has become "part of the team," cheerleading practices that are essentially corrupt, failing to use the term "corruption" to describe corrupt practices, and for modeling and promoting a system of values that not only accepts but celebrates behaviors that contribute to corruption and crisis.

In the same vein as looking at the financing of mass media and how it affects coverage, we also need to look at the financing of NGOs, which, like the mass media, are supposed to be on the side of public welfare, but are funded by the same people and institutions that they should be monitoring and criticizing.

In the United States an idea is beginning to form about a new definition of the corporation. The 18th century model is that corporations have only one purpose –to make a profit. In the 19th century we saw the creation of non-profit corporations that have no capitol and must live by begging for money. Perhaps we need to create a third model, what might be called a "social enterprise," a form of corporation that is already found in some countries. In England there is actually a legal model for these, and in Holland there are 800 of them, run by standard business practices, but with both social and financial impacts measured and the financial gain divided between the minimum needed for the continued survival of the business and the balance going to underwrite the organization's social impact. There is a growing number of philanthropists investing in this kind of enterprise and accepting a return on investment of 2 percent or so.

Special Presentation by Sylvester Eijffinger: The Sovereign Debt Crisis in the Eurozone: Prof. Eijffinger gave an overview of the causes and solutions of the crisis currently facing the EU:

From the beginning of the Eurozone you already see problems in current account imbalances of member nations. If you go further, you see trend lines in which liabilities in relation of assets are widening in favor of liabilities. This was true even at the time when Greece entered the EU in 2000.

The same held true with Portugal, whose liability has also grown since its entry into the EU. Ireland presents a different case. Its liability was triggered by banking practices and then the skyrocketing of the country's sovereign debt when the banks were taken over by the government. Unlike Greece or Portugal, Ireland's assets have actually grown along with its debt.

How did all this happen? It happened because of the divergence between real and nominal interest rates – with one interest rate prevailing across the EU but with different national inflation rates. When the rise of unit labor costs exceeds increases in productivity, you then get inflation. From the start of the EU, countries with high inflation essentially entered into a zone of zero real interest rates, which naturally prompted those countries to increase debt, thus aggravating their sovereign debt crisis. Even today, real interest rates in the U.S. and EU are different from nominal interest rates. Real effective exchange rates also vary across the EU: Germany had low effective exchange rates – which promotes exportation – while others like Ireland have very high rates, promoting importation.

Meanwhile, Greece, Italy, and Portugal are not really full participants in the EU's internal markets because their national markets are sheltered by government subsidy and protections. But you can't really be a member of the monetary market if you are not really a full-fledged participant of the internal EU market.

Until 2007, public debt rose across a range in the EU, but since then has been rising everywhere in the EU.

What needs to be done to make the EU work?

Three things need to be accomplished.

1. We need fiscal union of the EU. We cannot have socialization of debt without accepting the potential of states going bankrupt

2. A unified financial market or banking union. This can only happen when there is banking supervision at both the macro and micro levels on a European level. This won't be comfortable but the truth is that central banks have the only effective instruments for affecting an economy.

3. We need a European deposit insurance scheme.

All of these points in turn require either a de jure or de facto political union – at least in economic and financial institutions. Currently we face a difficult decision and the discussion going on right now will last probably for years about the structural processes. Financial markets will not be mollified merely by bailouts but by a long-term perspective that includes unification and oversight on a European level. EU members can solve the financial crisis only by solving differences over finance and banking unification and supervision.

LUNCH PRESENTER
Ambassador Kazuhiko Togo (Japan)
Director of the Institute for World Affairs and Faculty Members of Kyoto Sangyo University
Advisor, External Relations, Shizuoka Prefectural Government, Japan

TOPIC
Country of Mt. Fuiji – Rich Country? Virtuous Country?

INTRODUCTION
Stephen B. Young, Esq. (USA)
Executive Director, Caux Round Table

Stephen Young introduced the ambassador with a moving story of how his own grandmother sent Kenneth Todd Young, Stephen's father and later himself an ambassador to Thailand, out into Cambridge, Massachusetts on December 7, 1941 to bring Ambassador Togo's father, then a student at Harvard, to the Young's home for protection. Ambassador's Togo's grandfather at that time was the Foreign Minister of Japan, in the government that had just executed an act of war against the United States. This act of moral courage, Young declared, forged a bond between the two families that itself is a kind of metaphor for the potentially strong ties between the U.S. and Japan.

Ambassador Togo: After leaving foreign service and traveling around the world, he said he began asking himself "Where is Japan?" In the late 1980s, we talked at CRT Global Dialogues about Japanese industrial and financial power and how to reconcile it with Western values.

Today, though we look at the rise of China and India and ask "Where is Japan?" but from a different perspective. Why did Japan's market economy become unsustainable? The problem lies with something much more systemic than economic failure or the problems of dealing with an aging population.

What has happened is that Japan is dealing, and has dealt with its problems reactively rather than creatively, out of a strong sense of national identity and pride. He came to conclude that what is lacking in Japanese thinking is "morality," or a combination of heart and mind, and the failure to ask what is best about Japanese culture and its past and to create a vision for the future based upon those qualities.

After returning to Japan in 2008 his real interest turned to finding out if it was possible to recapture and recreate Japanese objectives. He is happy to announce that he recently found one objective that goes under the rubric of "rich country, virtuous country, country of Mt. Fuji." This formula speaks to a new quality of life – a rich country; moral and virtuous -- but also about a new kind leadership.

The three points that remain to be resolved are how did this objective arise? How is it to be implemented in the power center of Japan? And what is its future as a guiding force in Japanese society?

Elected in January, 2000, Prime Minister Obuchi, challenged the Japanese Diet with the question: "Would Japan remain as a country worthy of respect in the 21st century?" He established a 21st Century Initiative under the slogan given above but unfortunately died soon thereafter.

About the notion of a rich country, one concept of Obuchi's stands out for Ambassador Togo – the idea of the "garden islands." In the 19th century American and European visitors were struck by the beauty of Japan and the friendliness of its people. But that happened to be the same period of time when Japan learned about industrialization and organization from the West and began to forget the timeless values of a beautiful landscape and traditional culture.

Obuchi got his ideas about Japan's restoration from the Edo period – the time of the Meiji Restoration. One of the leaders of that restoration wrote a book that identified three national directions: Japan needed to open itself and engage in world trade; it needed a strong military, in particular a strong navy; but even with those attributes, or because of them, it needed more than ever to pursue a virtuous way – a course of self-control, self-restraint, and dedication to the public good -- the best part of the samurai spirit – all of which the qualities are encompassed for the Japanese people in the very name, Mt. Fuji.

Unfortunately Japan's current direction goes back to the 1970s and leadership that called for massive urbanization, massive public investment, and instant communications.

Will Japan succeed in achieving the three national objectives of rich country, virtuous country, country of Mt. Fuji? Partly this is a question of what people want. Japan is still a relatively rich and comfortable country. Yet this affluence itself represents a problem, as does the quality of the current leadership, which is seen as not being able to get things done and which has no vision.

SECOND SESSION
First Recommendations for Reform of Global Capitalism: The Role of Governments

FACILITATOR
Morisha Kaneko (Japan)
Senior Fellow, Caux Round Table

PRESENTER
Stephen B. Young
Executive Director, Caux Round Table

Morisha Kaneko's opening comments: Markets are not fully reliable in pricing and valuation decisions. New approaches are under discussion. But governments still have a public agency responsibility to regulate the financial sector to minimize speculation, rent seeking, and all non-value-adding activities.

Stephen Young: Stephen Young opened the session by pointing out that the reluctance of governments to interfere in markets stems from a mentality governed by the Chicago School of Economics, which holds that markets don't need to be regulated. They will find their own equilibrium.

Recent consensus, however, is that there is a role for government in fostering the conditions of prosperity. But what is the appropriate role of government? A second factor behind government abdication in the economy is the poor governance in many poor and developing countries where crony capitalism and outright exploitation by the regime is often the norm, as in the case of the Mubarak family moving $33 billion out of Egypt into private bank accounts. Yet a third factor is the rise of state capitalism, in particular in China and questions about whether, if you look at that country's GDP over the past 20 years, this might be a better model of government-market interaction.

The issue before us, then, is what are the moral and other responsibilities of government? Does it need to stay out of market decisions?

DISCUSSION

Comment 1 | No, we need a market economy combined with rules. Second, there have to be limits to growth. We can grow ourselves to death. There is also a growth in depth – the replacement of bad products with good ones – that is also a kind of growing. It means growing does not always mean more and more. We need rules and a referee.

Comment 2 | It should be easy to agree on certain principles: one, there is no such thing as a free market. All markets are regulated to some degree or other. Second, there are things beyond markets that governments need to do, like create sustainable growth, a job that will only succeed if government and business work together. Finally there is the issue of the power of taxation: Lots of indication that income inequality is much more important than we ever thought. Evidence suggests that excess income inequality becomes an actual drag on the economy. There is the right amount of inequality: That which motivates people to seek upward mobility. But by now it is evident that income inequality in the USA is too great and efforts by some of the wealthiest Americans to point to their excessively low tax burden is a move in the right direction.

Comment 3 | Policy makers respond to public sentiment. On a continuum of freedom and restraint we must strike the right balance, business must step up and provide more leadership in asserting the need for responsible standards. In that case we might forestall the heavy hand of government, though in the current climate, there is a strong perception that business is not regulating itself and can't be trusted to do so, which means we can foresee more intrusive government intervention.

Comment 4 | The problem is not a lack of standards. We have lots of them. There is something else missing. What do we mean by sustainable growth and how would that be put into the charter for governments and into the role of boards of trustees? The government's role is to manage responsibly, but at the same time it has responsibility for shaping the future.

Comment 5 | One of the strongest roles for government is to provide justice. Without strong judiciary and laws there can be no free market. Many people now are acting in corrupt ways that may not even necessarily break any laws. They are using the legal system to twist it to make more money and create an increasing gap in wealth. The deck in the U.S. is really stacked right now. Reforming the market per se is not enough. We will have to think about creating radical recommendations that will help redress imbalances such as the fact that 98 percent of employment in he U.S. created by small business but 80 Percent of the nation's wealth is in the hands of the top 1 one percent.

Comment 6 | Board members in the U.S complain about uncertainty, in particular when it comes to the regulatory burden. Since the financial crisis we have seen an enormous growth of regulatory burden. The Dodd-Frank bill is enormous. The financial crisis in the U.S. was mostly caused by the financial sector, not by most corporations in other sectors. Leaders of those other sectors have not spoken up. If they had, perhaps they would have saved themselves from these new regulatory and reporting burdens. The problem with Dodd-Frank is that it does not really address problems in the financial markets but covers all businesses. However, we do need to re-regulate the financial sector, to break up the banks that are too big to fail, simplify the tax code and provide incentives for long-term investments. Our tax code promotes short-term investments at this time. For example, we could raise the tax rate on dividends and lower it on capital gains.

Comment 6 | We have entered a period of qualitative rather than quantitative growth.

Comment 7 | This brings us back to the role of government concerning our Caux principles. One area that is important is market structure and the role governments should play in creating those market structures. If you have a high level of market concentration – for whatever reasons – you have the potential for a considerable abuse of power. The source of power is market share – as with Goldman Sachs. That level of concentrated market share is when we start to talk about organizations that are too big or too complex to fail, and we move into discussions where we end up removing any moral hazard from those companies and start talking about how we have to bail them out or else.

Unfortunately, since 2008 we have not become more competitive in the financial markets in the United States or the UK, but less competitive, with a market structure that leads to a lack of competition. We should welcome a government role in enforcing anti-trust, in getting rid of anti-competitive practices. This is where the UK is doing considerable work right now not just in banking but in IT areas. We should certainly welcome the experiment in the UK in enforcing regulations separating retail and investment banks, where the government will back up commercial retail banks where all of society is involved but not back up investment banks in the same way. The UK also deserves credit for moving against proprietary trading. But this can only happen with government intervention. Unless governments act the concentration rates in banking and finance that are already bad will only get worse and we will see an ever deepening crisis.

Comment 8 | Some of the worst abuses against communities have been in the pharmaceutical industry. Governments have a light touch here in terms of legal punishments even though it is a messy area. In my experience the fear of going to jail will really get the attention even of the most powerful people. To send a young woman to jail for pilfering a few thousand dollars from the till while letting the heads of organizations that have caused enormous harm, including deaths of people, get off with relatively small fines, needs to change.

Comment 9 | Governments are meant to serve the people and maybe we need to remind governments of that. But in the experience of people from my part of the world (Eastern Europe), governments are transitory. What they emphasize is culture. Go to their embassies and you will not see pictures of war heroes – we hate war heroes – you will see pictures of our poets, musicians, and artists.

Comment 10 | When the U.S. lost its industrial base it began to run a huge trade deficit, which it paid for by borrowing from China. When this money came to the U.S. it did not go to industry or to agriculture but to the real estate market. So maybe there is a role for government in making sure this kind of money borrowed from overseas is used for diversified activities?

Summary by Stephen Young: Markets are not enough. There is a role for government, though governments have a downside as well. It is an issue before us of avoiding extremes. If there is not enough government of the right kind that is an imbalance and there will be a corrective force. If there is too much government of the wrong kind, that also creates an imbalance and must be corrected as well.

SESSION THREE
Second Recommendation for Reform of Global Capitalism: Repositioning Finance and Banking

FACILITATOR
Karel Noordzy
Member, Caux Governing Board

Karel Noordzy opened the session by reminding participants of the stark choices laid out in the keynote address the night before by Marteen Zweers: accept inevitable revolution and let global capitalism and the financial system as we have known them disappear or try to reform the system we have in place.

The second of these options, he said, is what we are focusing on in this session – reforming the system. That, however, means we must curtail perverse behaviors by banks and other financial institutions. Should we do that with more regulations and laws? Can we regulate away greed in people? How much will it cost to implement effective regulations?

Some examples cited by Noordzy of what could be done might include splitting banks into retail and investment banks, raising taxes on dividends and lowering them on capital gains.

Noel Purcell was invited to make a brief presentation on these points: In some sense a revolution in banking and financing is already underway, he observed, with cloud funding as one example. But even so the core of the system has to have 110 percent integrity. The evidence for this is clear. When a country has a sick banking system, it drags the whole country down, as in Japan in the early 1990s when politicians did not let the banks fail and write off the losses but bailed them out and created a persistent problem of zombie banks.

For further discussion of these and other points, Purcell referred participants to page 47, of the 2012 CRT Global Dialogue handbook.

He went on to say that some easy reforms would be to regulate the speed of investments, particularly leveraged buyouts. “If the point is long-term investment then why not have a rule saying if you want a shareholder vote you must hold shares for more than one year?“

The floor was then open for discussion/ dialogue:

Comment 1 | What is at stake in this discussion? Is our major concern that there is a system that has broken down or that it is making the rich richer and the poor poorer?

Comment 2 | There are many people not here who need to be represented here. The world is a big village so any new rules will affect everything.

Comment 3 | Are we, the generation that created the problem, the right people to come up with solutions to this crisis? Or should we serve as mentors and advisors for the under-40 generation, helping and guiding them and offering possible solutions? If we give them solutions that are not their own, those solutions will not be implemented.

Comment 4 | The crisis was not just caused by bankers but also by shareholders, whose desire for high returns pushed organizations to take more and more risks.

Comment 5 | Young people focus on innovations, not on institutions, so we should ask whether we should concern ourselves with reforming institutions or with focusing on innovations.

Comment 6 | By all means split up retail and investment banking but the best thing to do is to look at salaries and how bankers are compensated. Perhaps salaries should go down and be separated from the profits made by banks. Furthermore, perhaps no one working in a bank should be allowed to invest in that bank.

Comment 7 | The long-term solution must come from nurturing spirituality in the individual. Principles and values play a vital role but are overlooked in our scientific, mechanistic way of thinking. Those spiritual values span generations. They are not confined to the young or the old.

Comment 8 | The crisis is the result of problems in the financial markets and of the sovereign debt crisis. We need to separate these two issues. One is a private enterprise problem, the other a public issue. In the world today there are only 29 banks that are systemically important and, therefore, too big to fail. The tens of thousands of other banks do not represent a risk to society because if they go bankrupt they alone fail. The problem is that the 29 banks are so intertwined with the governments of the countries in which they are headquartered that no one can touch them. That is a political problem. There are ways – quick ways – to rectify this problem but no one has the guts to do it. One is for financial advisers, institutions, and ordinary people to refuse to invest money in those 29 at-risk banks. That would put those 29 banks out of business. Meanwhile the problem now is not just that these banks are too big to fail but they are too big not to be bailed out.

Comment 9 | When did money become more than a medium of exchange and an end in itself?

Comment 10 | If you offer incentives for certain kinds of behavior, young people will naturally follow in that direction. Banking should be a profession in which you cannot make quick money. Quick money attracts crooks or people who are driven by needs that are likely to lead them to cut corners.

Comment 11 | We need to offer practical solutions. We should be asking ourselves what the CRT has to contribute to society in these critical matters. This might be an opportune time to empanel a working group with relevant expertise to develop a version of the CRT Principles for the banking sector. This might also be an opportunity to engage younger people in the process.

Comment 12 | Going back to our religious traditions, each has grappled with these questions for millennia. We had interfaith meetings here at Mountain House, and maybe those kinds of convocations should be held again. There is an initiative, for example, in England to convert banking into a profession with set principles and regulations.

Comment 13 | In response to the question of how and why money went from medium of exchange to an end in itself, the reason seems clear. People have an innate hunger for meaning and if they are not provided with or able to discover meaning in a spiritual sphere they will find their meaning in externalities. In the material world we live in an economy of shortage. In the spiritual world, we live in an economy of limitless abundance. If we find our values and meaning in the material world alone we will end up falling into a version of idolatry – such as the worship of money, which has been elevated not just to an end in itself but as the source of all value in the world – in other words, into a god.

Comment 14 | We cannot inspire people whether young or old simply by offering nothing more than a reaction to the current crisis and suggestions on how to dig our way out but by offering them a vision of what kind of world we want to live in. If that vision is an inspiring one, if it embodies "practical idealism," the young and the old will follow.

TUESDAY, JULY 31 AT THE 27TH CRT GLOBAL DIALOGUE

The second day of the Global Dialogue began with an unscheduled appearance by Digna Hinson, daughter of the late Frits Philips, long-time head of Philips Electronics in Holland and a co-founder of the CRT. Digna Hinson gave a moving presentation about her father's struggles to continue to lead his family's company during the Nazi occupation and how both her father and mother intentionally sought quiet time to meditate and receive higher wisdom.

"We can talk about what needs to be done and how it must be done, but there still needs to be time of quiet because it is out of that that inspiration may come," she said.

FOURTH SESSION
Third Recommendation for Reform of Global Capitalism

FACILIITATOR
Chris Pierce (United Kingdom)
Founder and CEO, Global Governance Services, Ltd. "Focus on Rating Agencies"

Chris Piece opened this session by saying that he would speak about the role of what he calls "financial gatekeepers" – organizations concerned with the reputation of companies, especially from the perspective of the investment community.

On day one he noted how participants at the Global Dialogue had discussed banks and the fact that some of them are incredibly powerful. Yet, as he pointed out, commercial credit rating agencies have even higher concentration levels than banks. Only three in the world possess any importance in terms of providing credit reputation to business and financial institutions: Moody's, Standard & Poor, and Fitch Ratings. In the United States these agencies have 95 percent control of the credit rating of firms, while in the United Kingdom, that can at times rise as high as 100 percent.

He said he would also look at the situation of auditors – of which there are now only four left since Arthur Anderson's demise in the wake of the Enron scandal. These few auditing firms provide reputational information to investors and there are problems with the concentration of this power in so few hands. For example, in the U.K. only three companies audit banks. In some cases these audit firms have not been changed for over a century – for example, Barclay's has had the same firm for 125 years auditing its books.

What are rating agencies, and what do they do? They are not involved with equity but the debt and leverage position of companies. What happens is that if a company wants to issue debt, it will often make an announcement about this in the press and then a letter comes from one of the rating agencies offering to rate the debt. The letter will typically say that our free assessment of the debt to be issued is C, or junk-bond status, but if you would like us to make a more considered judgment of your debt, please provide us with private information and we will come up with an assessment that might improve your rating. But this will cost you and you will have to pay us. This phenomenon is what has been focusing many people's minds on the conflict of interest that stems from organizations that are getting ratings by paying for those ratings.

Historically there have been many problems associated with rating agencies. They have not identified the actual levels of risk. Enron, for example, had a high rating up to its very collapse – even though rating agencies should have recognized the disastrous level of risk associated with Enron, WorldCom and other companies that collapsed.

This past decade saw a rise in the securitization of debt and the bundling of securities. Many in the financial sector were bundling low and very high-risk components, especially subprime mortgages, then selling them. In the rebundling process these new securities were given to rating agencies to be appraised. Even if the bundles contained only five percent of mortgages that deserved AAA ratings and 95% that were C – essentially junk bonds – the bundled offerings were still getting AAA rating.

There were many reasons why this might have occurred including ignorance, complexity, and other factors. Whatever the reason, the 2008 financial crisis was largely triggered by the inability to identify – and separate -- toxic bonds and debt from those that were non-toxic.

Another issue that has led to the problem is that the investment community has little interest in knowing much about the rating agencies.

Today, rating agencies have begun moving into the rating of countries. Some of them claim to have the expertise to identify if a country will default. But again there are problems. For example, the lowering of the U.S. rating earlier this year involved a mistake made by S&P, which caused a loss of more than $2 trillion. It took the rating agency several hours to admit its error, but by then the damage had been done in the markets.

The same thing is beginning to happen to banks and investment firms in the Islamic world. Yet there are the same questions about the competence of these rating agencies as there are about such agencies in the rest of the world.

DISCUSSION

Comment 1 | We need to differentiate between ratings of products and ratings of governments. With ratings of products – bonds, debt instruments – there is an obvious conflict of interest. Ratings themselves are not wrong, but can be used inappropriately. This is what happened in the 2008 crash.

As for sovereign debt rating, it is surprising how clear the methodology of rating agencies is. What makes those ratings subjective is that they must make judgments about the future course of a country, so their judgment is no better than those the financial markets make everyday. If you compare the spread of markets with ratings, you can see that the agencies are simply following the lead of the markets.

What is the solution? More competition normally increases quality though achieving that is difficult in this case because the entry level cost of becoming a commercial rating agency is so high. The second solution might be to not pay too much attention to ratings from agencies.

Comment 2 | The argument could be made that rating agencies caused the 2008 crash but since then they have been barely touched by new regulations. Dodd-Frank, for example, barely touches upon the need to reform rating agencies. This is why CRT and other organizations must speak up.

By 2006, it was obvious that there was a housing bubble and so instruments being sold containing mortgages were not AAA at all. If those instruments had been given a BBB or a BBB- rating no one would have bought them and banks and investors who bought them would have been spared and we would not need to find $14 trillion to recoup losses.

If you have lousy information, you get wrong investment decisions. The quality of these ratings is significant for the entire world, not just for investors. Look who suffered most in the crash - not the rich or rich societies but poor people and poor countries. To this day employment problems, volatility of commodity prices, and high levels of debt are falling on countries that can least afford to deal with them.

Comment 3 | Since rating information is part of the product and essential to the valuation of the product, we need a vocabulary that is consistent throughout the world. We need agreements on vocabulary, which means it may be necessary to nationalize ratings agencies rather than simply increase the number of agencies.

Chris Pierce's response: Another group of experts says we don't need commercial credit ratings agencies at all. We don't use them on the stock exchange so why do we need them for debt?

Comment 4 | The problem with the pre-crash ratings wasn't simply incompetence. It was corrupt behavior and we need to name it so it is taken seriously.

Comment 5 | The concern about nationalizing agencies is that it will guarantee their incompetence. In fact, the smart guys with all the money were designing securitized products to beat ratings agencies, which were essentially outsmarted.

Comment 6 | Inside Holland there are people willing to spend a government career at lower salary just to contribute to society. It is wrong to assume that they are of less competence than their colleagues in the private sector.

Comment 7 | Neither more competition nor more regulated private firms are the right solutions. The solution might be making rating agencies independent, like the IMF or World Bank. Make them like NGOs.

Comment 8 | What were German institutions thinking about when they bought these tainted instruments? Five minutes of study would have revealed that the bankers didn't understand what they were buying. There needs to be an acceptance of personal responsibility. The financial crash was not just a failure of process but a failure of stewardship as well.

Comment 9 | What models work to get good people to work in service positions? One is the Drug Enforcement Administration, which works fairly well and at least slows down drug dealing. Another is the Financial Accounting Standards Board, which is perhaps the best model. The FASB is sanctioned by the SEC, is independent, but is funded by corporations. If you want to be a publicly traded company in the United States, you have to pay a fee to the SEC to underwrite FASB.

Comment 10 | There are several hundred rating agencies in Japan, not for the financial industry, but for things like educational achievement. Those agencies also cause problems so I don't support rating agencies.

Comment 11 | After the crash, some Swiss customers asked the government and banks to go back to videos to review what customers were asking about the risk involved in the instruments they were being sold. In most cases, the banker sitting across from the customer could not explain the product and was hiding behind rating agencies. In some cases, these banks had to repay customers who were led astray.

Is the problem, then, the ratings agencies or the incentives given to bankers to sell products? Few bankers were even allowed by their institutions to acquire more information about the bundled securities and those bankers who insisted on getting more information were actually kicked out of their jobs.

Comment 12 | Frankly the whole ratings system sounds like an old boys club. As long as nothing causes problems inside the boys club, anything goes.

Why aren't there mechanisms to prevent people in the financial industry who caused the problem from ever working in the industry again? I am inviting the CRT to set up an ethics committee with the power to exclude people who have committed ethical, if not technically legal, transgressions.

Comment 13 | There is nothing wrong in paying a fee in order to be examined. That happens in many fields. What is required is a setting of standards, which has not really happened with credit ratings agencies.

Comment 14 | The issue is that credit rating agencies offer a range of products, and can easily find themselves in a conflict-of-interest because they are acting in one capacity for one company while acting in another capacity for another company. As a result we face he fact that if there is another financial bust, we will be down to even fewer than three credit ratings agencies. The solution is perhaps to divide the firms up and create individual companies for each of the products and services being offered.

Comment 15 | The rules that exist are good rules but need to be implemented.

Comment 16 | There is a good model in the Islamic world of Sharia advisory boards made up of scholars, imams and others who often sit on the boards of 20 or 30 banks and can examine Sharia compliance with a comprehensive overview.

Comment 17 | Currently there is no assessment of corporate social responsibility in ratings criteria. After 2008, the CRT suggested this. Our advice was welcomed by two former Fed chairs but unfortunately we were not able to make any further inroads.

SUMMARY OF DIALOGUE BY CHRIS PIERCE:
Forecasting is difficult. What we have looked at are areas of great complexity. Institutions may need a system of rating products that is different from sovereign ratings. We have not agreed on what kind of ratings would be better. At one extreme today, we have said that nothing be rated. At the other extreme, that it is the government's job to create agencies that provide accurate rating, but then on the global level ratings agencies being controlled by national governments may not be appropriate. Then we heard suggestions to the effect that other kinds of professional standards boards may be needed to provide a new model for rating agencies. Others have argued that we should simply not take ratings so seriously and/or we should regulate the credit rating agencies more closely, while others in this dialogue have said that there should be ethical committees to oversee all of this. Credit rating agencies and auditing firms seem off the radar screen and it is assumed that they are acting with insight and integrity, even though there is good reason to question those assumptions.

FIFTH SESSION
Reform of Global Capitalism and the Need for Reform of Theories About Capitalism

FACILITATOR
Violeta Bulc
Director, Vibacom d.o.o. (Slovenia)

PRESENTERS
Stephen B. Young
Executive Director, Caux Round Table

Don Delves
Founder and President, The Delves Group

Steven Young said that this topic – reforming both the theories of capitalism and of the business school curricula that embrace these theories -- is foundational because it speaks to the foundation of global capitalism that we have now. The current theory's immediate antecedents were developed by American Nobel Prize winners in the United States, mostly at the Massachusetts Institute of Technology and the University of Chicago. It is usually called the Rational Market Theory and sometimes the Chicago School of Economic Theory.

The apex of the application of this discredited theory was former Federal Reserve Chair Alan Greenspan as the asset bubble was forming and then his successor at the Fed, Ben Bernanke, both of whom had such belief in the rational ability of market participants to get it right that they did not see the storm coming. They did not think that a collapse in housing prices would destabilize the housing market and that the destabilizing effect this had on collateral debt obligations would destabilize the world economic system. Why? Because of these two men's embrace of the underlying premise that markets always get the price right.

The basis of this theory is the notion of homo economicus and the assumption that market actors are rational and always maximize self-interest in a way that is quantified by dollars. Things like love, pride, etc do not have to be calculated into pricing. The second aspect of this assumption is what is known as "Agency Theory," which holds that since we are all economically motivated the only way we can be motivated is through those personal interests. The whole bonus concept for top managers was the main driver behind financial institutions creating the housing bubble because a large percentage of income for the top earners was based on bonuses. The great majority of subprime mortgages originated with brokers who got fees for closing a mortgage and then sold them two or three times into the secondary market where they got bundled into CDOs at Goldman Sachs where someone at the broker's desk was acquiring three-quarters of his earnings from bonuses and his share depended on how many mortgages he bought and bundled and passed through in a year.

Because we are all self-interested, according to Agency Theory, no one can be trusted to be a faithful agent. The only way we can get cooperation is by aligning financial interests. In short, if there is going to be a role for corporate social responsibility or stewardship in global capitalism, this agency concept will have to go.

Violetta Bulc followed up Stephen Young's remarks by stating that his questions should form the core of the ensuing discussion – is there room for morality and ethics in capitalism and if so what needs to be changed for it to flourish? She then introduced Donald Delves, whose PhD thesis focused, in part, on Agency Theory.

Delves pointed out that he is a University of Chicago-trained MBA in Finance with 30 years of experience as a compensation consultant. He works in the field of Agency Theory every day and he confirms that it is the core theory underlying executive compensation today.

The notion of problems in Agency Theory was first noted by Adam Smith – though not named by him – who said when the owners and managers of a company are separate people, one can't assume that managers will act in the owner's interest. We can see this separation, he said, "in spades" in publicly traded companies where managers are agents of shareholders. Agency Theory holds that we need to have the right incentives to get managers to act as agents in the best interest of shareholders.

But there are two main flaws with this theory. The first applies to the relationship between managers and owners with all efforts going into assuring that the interests of managers and shareholders are aligned without acknowledging that there are many other stakeholders whose interests should also be represented – employees, customers, communities, the environment and so on. That flaw in current practices can be fairly easily changed by altering incentives to encourage representation by managers of all stakeholders and by instituting reporting requirements on stakeholder outcomes. This change is beginning to happen.

The second big mistake of Agency Theory is the concept of homo economicus. This concept is based upon a simple assumption that has permeated financial theory for decades and influences our economic systems. Delves said he can testify that managers don't always act in their own interest and "they are certainly not rational." We are, he said, in fact irrational creatures and incentives can backfire easily. In particular incentives are effective in getting people to accomplish a particular task or to work faster but they are not effective in getting people to be creative or innovative.

Three fundamental needs motivate people: the desire for competence, relatedness, and autonomy. There is also intrinsic and extrinsic motivation. Intrinsic motivation comes from the heart and soul that leads us to do things because they make us feel good about ourselves. It is intrinsic motivation that we have to tap into. People will do what you

violates their values. But if you really want to tap into their true potential you need to make sure your company's values are aligned with those of the person. By clearly stating them you will attract people whose values align with your company. It is critically important that we do this and build it into our compensation systems and into how we hire and promote people.

I worked in CEO compensation, Delves said. In the last few years we have begun to see it go up and down based upon performance. But what do you say to workers on the floor who haven't seen an increase in pay in 20 years? We have put tremendous effort and design into how to pay the top 15 people, but done nothing about people on floor. It's not so much that we are paying CEOs too much but that we pay other workers too little and give them too little share in the rewards of the company's success.

Stephen Young: Starting under President Bill Clinton, Freddie Mac and Fannie Mae were pushed to approve loans for people who didn't really qualify. Freddie & Fannie did not originate, but would approve the loans. And even at the height of the subprime boom, Fannie & Freddie were responsible for only 25 percent of subprime loans. It followed the same policy pushed by President George W. Bush.

This stemmed from a great American effort to beat Singapore for houses per capita. Under Clinton, Jim Johnson, CEO of Fannie Mae, began to make bargains with main movers and shakers of the housing bubble, like Countrywide. Fannie & Freddie was a classic case of crony capitalism. Executives from those institutions met regularly and shared fine meals and wine with members of Congress. Former Senator Christopher Dodd got a loan from Countrywide, for example.

Under Franklin Rains term as CEO Fannie Mae began cooking the books in order to show higher profits so he and his associates would get bigger bonuses. These quasi-government agencies were run on the Agency Theory, that markets can do no wrong and you reward your agents to align themselves with the interests of shareholders. The combined losses of 2008 wiped out all the profits of Freddie & Fannie since 1945 plus another $100 billion.

Comment 1 | On rewards and Don Delves' remarks: there are three things to add: as a responsible shareholder of a state-owned bank I have pushed for a status quo of fixed income for bankers; end of story. If you have influence in the United States and the United Kingdom, you push down those amounts and influence the way that variable compensation is determined.

Second, no heads of Dutch financial institutions have left despite the modest compensation these organizations offer. But I am worried that 30 and 40 year olds in those institutions will go to New York and Singapore and earn $500,000 or more and will become accustomed to this lifestyle and will not return to Holland to manage financial institutions there.

If you want to punish executives you can put them in jail or make them pay back money, but later in life the worst punishment a person can suffer is harm to reputation.

Comment 2 | Surveys of shareholders could be done and would show that those values that motivate people are not simply monetary incentives.

Comment 3 | It would be good to place the Japanese situation in context here. Stephen Young mentioned the prevailing market theory based upon homo economicus and the Agency Theory, both of which have destroyed true markets. In the case of Japan, however, rational market theory was very different from what we observe elsewhere. For one, there was a kind of consensus that created the Japanese market theory placing its highest value on the role of cooperation in which actors work together so all may gain. Second, the Japanese placed their total trust in government. But then something happened, Prime Minister Koizumi brought pure market theory into Japan and for six years the Japanese tried very hard to learn and embrace this, but all along people felt there was something wrong.

One last point: Asians hear a lot about Democracy and Christianity from the West. The essence of Christianity is love of others, but when I hear about the Rational Actor or Agency theories, there is nothing democratic or Christian about them. How is that possible?

Stephen Young's response to Comment 3: That's because those theories are rooted in the philosophies of Herbert Spencer, Nietzsche and others who were consciously anti-Christian.

Comment 4 | Rational Actor/Agency theories are not, as Stephen Young asserted, ultimately rooted in Spencer or Nietzsche but go all the way back to Jeremy Bentham. Neither he nor Herbert Spencer were issuing manifestos of how things should be but were merely describing how capitalistic societies were operating in their day and in reality even as those societies paid lip-service to Judeo-Christian values. The great challenge in promoting Moral Capitalism lies in the fact that the greatest corrosive element of moral and ethical behavior over the past two centuries has been capitalism – before which, Marx said, all things solid melt into thin air. To counter this, to insert morality and ethics into this system, can only begin with acknowledgment of capitalism's amoral reality.

Comment 5 | We are all born moral, which is in direct contradiction of Rational Actor and Agency Theory.

CLOSING REMARKS, DON DELVES: Our generation, for better or worse, is taking capitalism to its limits. Capitalism is in essence amoral and if allowed to operate unfettered will generate amoral behavior. But what I've seen of the so-called Millennium Generation is very encouraging. They are interested in what their beliefs and principles are and how they align with their own actions.

LUNCH PRESENTATION
Dr. Ponna Wignaraja
Chairman, South Asian Perspectives Network Association (Sri Lanka)
"Sustainable Livelihoods and Building Democratic Institutions"

Over lunch Dr. Wignaraja aired films about efforts in Sri Lanka, Khazakstan and elsewhere to help the poor break out of the bonds of poverty by providing advice and capital while letting the people themselves mobilize, organize and concentrate production in ways that increase both their material wealth and also their political freedoms.

FILM AND DISCUSSION SUMMARY: In South and Southeast Asia there are 2.5 billion people, a high percentage of them poor – 70 percent in India alone. When it comes to the poor, there are the poor and there are the very poor. When we look at the poor, we find that about 60 percent of them can succeed in raising their standard of living by mobilizing, organizing and concentrating production. But for this to happen there needs to be sensitive support from outside and inside -- from local governments, national governments, NGOs, academics, and technical experts. The CRT has already formed an effective group. Now it has to find the next step. Even if you are retired or a very young person you can learn how to be a facilitator of this process and help build these new partnerships.

SIXTH SESSION
How Can We, as Responsible Citizens, Stimulate and Support Poor People to Improve Their Day-to-Day Lives?

FACILITATOR
Nick Pisalyaput (Thailand)
President, Corporate Responsibility & Ethics Association for Thai Enterprise

Opening statement by Nick Pisalyaput: I was struck by a business card given to me yesterday by a friend – Robert McGregor. On the back is the Rotary International's 4-Way Test: Number 1, is, Is it the truth? Number 2 is, Is it fair to all concerned? Number 3, Will it build goodwill and better friendships?; and number 4, Will it be beneficial to all concerned?

Comment 1 | It would be wonderful if an equivalent of the 4-way test could be put on the back of the business card of every organization on the globe. We know how much business leaders act as models for others, so if many more had this kind of list of principles and acted on them, others would follow.

There are 30,000 Rotary Clubs around the world and their members are often community leaders. If the Rotary Club were to come forward to promote 4-way test everywhere it could be very powerful.

Comment 2 | My goal will to be disseminate information around audit companies and ask if they are implementing the 4-way test.

Comment 3 | As a trainer of business executives, I have tried to incorporate similar values from Buddhism, "Reduce selfishness and make others profitable." It's a very important concept in Buddhism.

Comment 4 | We've talked a lot about reform and revolution coming through younger people. So we can talk to them – our own children and others – and look for opportunities to go out and be mentors. It would be very helpful if younger participants here would reflect and comment on what we've talked about at this Global Dialogue.

Comment 5 | I want to take Buddhist principles into business training. After all the discussion about Christian principles, Islamic principles, and Jewish principles, it's important to keep in mind that there are relevant Buddhist values as well when it comes to reforming capitalism.

Comment 6 | A concept I took away from the report on the fellows retreat was the term "Moral Energy." It is from moral energy that reform will come. There is so much broken, so much that is wrong, that the challenge is immense. Whatever we do we can't try to shoulder it alone. The CRT is a great organization but it needs to join forces with others.

Comment 7 | Buddhism and Shintoism are playing a major role in implementing moral capitalism in Japan. The consensus is that capitalism plays a key role but that there is something missing from it – and that is a moral compass.

Comment 8 | I have discovered from working with our Islamic members that there are very strong principles and values to be found in the Qu'ran and we should continue to look for core values and commonalities that span the globe.

CLOSING COMMENT BY NICK PISALYAPUT: I wasn't involved in bringing together Christian and Buddhists thinkers by the CRT the first two times but I was the third and it was truly inspiring to see the common ground and the connections that were made. The fact is that we should look back – way back – into our own culture. Stephen Young and I just started a sustainability study at Sasin Business School, a part of Chulalonghorn University in Bangkok that follows the Sufficiency Economy model introduced in the 1990s by King Bhumibol of Thailand. If one were to take the path the King laid out, we would not have seen the crash in 2008.

SUMMARY OF DISCUSSIONS
Stephen B. Young
Executive Director, Caux Round Table

Are we in the situation where, as Maarten Zweers suggests, we have to burn the phoenix into ashes so the new phoenix comes out of the old phoenix in an act of birth? Whatever phase of global capitalism we are in, one thing is certain -- the next stage is gestating.

If hope is to flourish, community must be established and it is established through language, so we must find the language that will resonant with many communities.

The next point I want to touch on is from the story of Sri Lanka that we saw in the film earlier today. It suggests that, yes, to some extent capitalism and free enterprise can be the answer to poverty and other problems. Markets can decentralize control of production and marketing, as in Sri Lanka. In the film we saw a story about a process in which local producers of commodities were able to save enough to finance their foray into marketing, but their finance was based upon assets and is, therefore, certainly more stable than and preferable to finance based upon debt.

What allows us to move from decentralized small markets to large markets? It is organization, co-operation, and specialization of functions, as described in the opening of Adam Smith's The Wealth of Nations and his story of pin factories that went from a few hundred pins a day to 48,000 a day, with costs per pin dropping, in the process empowering lots of ordinary people to buy pins.

Moral energy, though, is the root of new ideas, like the willingness to meet and work with new people. And where does moral energy come from? From spirituality, values and religion. This moral energy gives you balance between competing extremes and if you are balanced you are sustainable not only in economic terms, but also in terms of personal relationships and in relationship with the environment.

We also heard from those of you who argue strongly that we need to call corruption by its proper name – corruption. Many of you are still staggered by the scale and magnitude of corruption, especially in the lead up to the 2008 market crash. And it's true: the amount and breadth of corruption was, and is, staggering. There are a thousand people out there who should be in jail and at the very least, we should not have to bail out what amounted to a financial Ponzi Scheme and know that we will have to bail out the next one. Capitalism is amoral but it becomes immoral in the hands of immoral people, so while market capitalism may work in Sri Lanka, elsewhere in the world, it is run by a kind of Mafia mentality. There is a dearth of Christian or any principle at work and so corruption is endemic and threatens the survival of capitalism itself.

CLOSING COMMENTS AND CONCLUSIONS
Dr. Noel Purcell
Chair, Caux Governing Board

Noel: Steve and I often use the term "Brute Capitalism" but our book is called "Moral Capitalism." Capitalism des not have to be amoral but in its current practice it is.

Responses to an online survey done by the CRT shows that there is overwhelming agreement that capitalism is broken and needs to be reformed. Even at Davos it is now accepted that capitalism as it is currently operated has become dysfunctional and needs to be reformed.

One thing we didn't touch upon today, but have at other times, is that most of the democratic countries are in demographic decline, so irrespective of the capitalist system there are major challenges out there. When we look at rising stars, such as China, India and South Korea, we should notice that they come from very different perspectives than from Western countries. Still, there are common core ethics and values across all cultures – human dignity, respect for community and stewardship of the environment.

Two other things we need to work for is universal transparency: Evernet means that information not only wants to be free, it is very easy for it to be freed. Large corporations have little choice but to move from passive transparency to active transparency, from what you need to know, to openness and accuracy.

Second major global material shift we didn't address but we must face, is growing global resource shortages. At the same time we have seen exponential growth in capital growth over the past two centuries, We now have 7 million people now and we face the exhaustion of resources we currently rely on.

When we talk about reforming the system we have to do it within the context of growing resource shortage.

We need to get our corporations to shift their focus from quantitative measureable growth to qualitative sustainable growth. It is also likely that the neoliberal rubric of democracy is likely to change, too. Nobody thinks its working well, but nobody knows how to make it better.

We also saw that the Western debt crisis came about because fundamental data about the health of offerings and markets was ignored and we have to conjure the dynamics of that situation and ask how it came about.

Little wonder we are in a world facing a crisis of trust and not surprising that politicians and auditors are not making much progress fighting the fires. We have to take a wide perspective on this, and learn that just changing politicians is not going to solve the problem.

We also know that regulation itself will not repair or put in place an efficient market correction program. Still though regulations have to be part of the solution.

So we need a new way forward and a new generation and especially a new generation of business leaders that approach their task with a sense of deeper values and a spirit of service to the community.

That means we will have to begin with capitalism's key ethical shortfalls. Also we have to correct the rising tide of inequality. Third, a major ethical problem before us is that we live in a world where we try to externalize costs and internalize profits. That can't go on.

We need a new definition of business that fully aligns with the needs of all stakeholders, communities, and the environment.

The need for responsible leadership in capitalism and other dimensions has never been more sorely needed.

Which brings me to the call from Morrie and Bob who have both been here since the beginning of the CRT. This organization has somehow survived on very little resources, but it is clear that the task is big but we need resources to make a difference. We need an endowment campaign. I am going to ask you to participate. In your own lives, you may know people we can approach or government programs which will fund the kinds of programs we do so well.

I want to finish by pointing out that we had an over representation of the Dutch and Karol put great effort in getting them here in the middle of the European holidays. I want to thank you and your Dutch colleagues. You have made an enormous contribution to this dialogue.

And thank you all and thanks to the support team, which put an enormous amount of thoughtful effort into arranging this dialogue.