June 2019

VOLUME X, ISSUE XI

PEGASUS

A NEWSLETTER FOR THE CAUX ROUND TABLE FOR MORAL CAPITALISM NETWORK LOOKING AT BUSINESS ABOVE THE CLUTTER AND CONFETTI

Pegasus

Introduction

As some of you know, the Caux Round Table for Moral Capitalism (CRT) has developed a close working relationship with the Fondazione Centesimus Annus Pro Pontifice at the Vatican. Both our Chairman emeritus, Lord Dan Brennan, and I serve on the Advisory Board of the Fondazione. The Fondazione was established 26 years ago by Pope (now Saint) John Paul II as a lay foundation reporting to the Pontiff advocating Catholic Social Teachings in business, finance and the economy.

The 2019 annual convention of the Fondazione was held in the Vatican back on June 7th and 8th. The topic was consideration of Pope Francis' 2015 encyclical Laudato Si' on care of our earthly home, its environment, climate and inhabitants.

In this issue of Pegasus, we bring you some reports from those discussions: the remarks of Pope Francis, my remarks, the conclusions and recommendations presented to Pope Francis and some photos.

Now, the concern of the Pope in Laudato Si' is the quality of our care of the earth, our environment, our impact on climate and our provision for those among us who are less wealthy, less powerful and less flourishing. The Pope pointed to a disjuncture between our systems of financial intermediation and the requirements of the real economy and justice. He thus called into question how we "value" our work and our organizations in business, finance and the economy, a theme of current concern to the CRT.

So, we also include in this issue a meditation on value and values by Professor emeritus John Mauriel of the Carlson School of Management at the University of Minnesota. John is a frequent participant in our round tables here in Minnesota.

Stephen B. Young
Global Executive Director
Caux Round Table for Moral Capitalism

Address Of His Holiness Pope Francis To Participants In The International Conference Of The Centesimus Annus Pro Pontifice Foundation

Dear Friends,

I am pleased to offer a warm welcome to all of you who are present for the 2019 International Conference of the Centesimus Annus Pro Pontifice Foundation. I thank the organizers and those who have taken part in the discussions you have held on fostering an integral ecology.

Your conference this year has chosen to reflect on the Encyclical letter Laudato Si' and the call to a conversion of minds and hearts so that the development of an integral ecology can become ever more a priority internationally, nationally and indeed individually. In the four years since the publication of the Encyclical, there have certainly been signs of an increased awareness of the need to care for our common home. I am thinking of the adoption, by many nations, of the Sustainable Development Goals of the United Nations Organization; a growing investment in renewable and sustainable energy sources; new methods of energy efficiency; and a greater sensitivity, especially among young people, to ecological concerns.

Pope Francis

At the same time, however, a number of challenges and issues still remain. Progress on the achievement of the Sustainable Development Goals has in some cases been slow and even non-existent. Improper use of natural resources and models of development that are not inclusive and sustainable continue to have negative effects on poverty, social growth and social equality and the common good is placed in jeopardy by attitudes of unbridled individualism, consumption and wastefulness. All this makes it difficult to promote economic, environmental and social solidarity and sustainability within a more humane economy which considers not only the satisfaction of immediate desires but also the welfare of future generations. Faced with the enormity of such challenges, it would be easy to lose heart, giving in to uncertainty and anxiety. Yet, "human beings, while capable of the worst, are also capable of rising above themselves, choosing again what is good and making a new start."

For this reason, the word "conversion" assumes a special importance in our present situation. Adequate responses to current problems cannot be superficial. Rather, what is needed is precisely a conversion, a "turning around," that is, a transformation of hearts and minds. Striving to overcome problems such as hunger and food insecurity, persistent social and economic distress, the degradation of ecosystems and a "culture of waste" calls for a renewed ethical vision, one that places persons at the center, desiring to leave no one on the margins of life. A vision which unites rather than divides, includes rather than excludes. It is a vision transformed by taking into account the ultimate purpose and goal of our work, efforts, lives and earthly sojourn.

The development of an integral ecology, then, is both a call and a task. It is a call to rediscover our identity as sons and daughters of our heavenly Father who have been created in the divine image and commissioned to be stewards of the earth, re-created through the saving death and resurrection of Jesus Christ and sanctified by the gift of the Holy Spirit. Such an identity is God's gift to every person and even to creation itself, made new by the life-giving grace of the Lord's death and resurrection. In this light, our call to solidarity as brothers and sisters and to a shared responsibility for our common home becomes increasingly urgent.

The task that lies before us is to change "models of global development," opening a new dialogue on the future of our planet. May your discussions and ongoing work bear fruit in helping to bring about a deep transformation at all levels of our contemporary societies: individuals, corporations, institutions and politics. Although this task seems daunting, I encourage you not to lose hope, for that hope is based upon the merciful love of our Father in heaven. He, "who calls us to generous commitment and to give him our all, offers us the light and the strength needed to continue on our way. In the heart of this world, the Lord of life, who loves us so much, is always present. He does not abandon us, he does not leave us alone, for he has united himself definitively to our earth and his love constantly impels us to find new ways forward. Praise be to him!"

Dear friends, with these sentiments, I entrust all of you, together with your families, to the loving intercession of Mary, Mother of the Church, and I cordially impart my Apostolic blessing as a pledge of joy and peace in Christ our risen Saviour.

Centesimus Annus Pro Pontifice 2019 Convention

Western and Eastern Approaches to Integral Ecology

Stephen B. Young
Global Executive Director
Caux Round Table for Moral Capitalism

My topic is Western and Eastern approaches to integral ecology. Let me preface my remarks with two quotes from a poet who knew both West and East quite personally, Rudyard Kipling:

> *Oh, East is East, and West is West, and never the twain shall meet,*
>
> *Till Earth and Sky stand presently at God's great Judgment Seat;*
>
> *But there is neither East nor West, Border, nor Breed, nor Birth,*
>
> *When two strong men stand face to face, tho' they come from the ends of the earth!*

> *Ship me somewhere east of Suez, where the best is like the worst,*
> *Where there aren't no Ten Commandments an' a man can raise a thirst;*
> *For the temple-bells are callin,' an' it's there that I would be*
> *By the old Moulmein Pagoda, looking lazy at the sea;*

Pope Francis has challenged us to integrate our ways of living and thinking for the common good of our home and all its residents.

Does this mean we need to combine West and East to experience in thought and deed an integral human ecology?

Let me first provide a rough but practical distinction between the West and the East as these cultures approach integration and systems thinking.

For the West, I choose to limit its stand towards reality to an essence: a certain form of rationality which began with the Greeks. I have in mind Plato's demand that reason govern the person and subject the passions to its rules for analysis. This is Aristotle's understanding too, though he spoke of both scientific knowledge and practical wisdom as the two principal means by which our reason guides us in decision-making. The foundation for this deification of reason, I suggest, was in the certainty provided by Greek intellectual innovations in mathematics and geometry, which were replicated in the intellectual discipline of logical thinking.

I jump from there to the French Enlightenment's privileging of rationality and its parallel veneration of the scientific method for understanding our world as what is quintessentially "Western."

Third, I note the extension of this Enlightenment rationality by Nietzsche to the extreme of nihilism where rationality can be used to criticize and de-construct any proposition and any value, leaving us with only the will to power as an absolute.

The will to power, of course, seeks to dominate and does not tolerate being integrated with anything outside its chosen domain of control. This, I suggest, is the font of the technocracy and the anthropocentrism, which in Laudato Si', Pope Francis rightfully exposes as dangerously misleading.

The Western way with the mind finds security in separation by definitions, in the logic associated with words, in compartmentalization, in individuation, in analysis of innumerable disparate facts, in separation of mind from body, of "is" from "ought," of humanity from the divine (though Kant tried to create a substitute for this separation with his Categorical Imperative).

Next, I separate from this presentation of "Western" epistemology and metaphysics the Abrahamic religions. I suggest they stand on a different footing of belief. The Abrahamic tradition places humanity in a covenanted relationship with God so that we become his agents and stewards. Saint John Paul II wrote of our being "co-creators" with God of the world through our work, really our various vocations. Laudato Si' affirms our stewardship obligations to care for what is created by God, both natural and social.

The Old Testament in Ezekiel 34 speaks of God wanting to remove his flock from the bad stewardship of the shepherds of Israel who fed themselves and not the flock. Jesus, in his ministry, gave us the ideal of the good shepherd. The Qur'an teaches that the God of Abraham created us to be Khalifa, or stewards of his creation, and gave us everything we have, own, use and appreciate as an "amanah" or trust to be used wisely in his regard.

For quintessential Eastern wisdom, I select from China three texts: the Confucian Doctrine of the Mean, the Tao Te Jing and the Yi Jing. Here, the texts point us to integration of understanding around a mean or a balance of factors, facts and forces. These texts do not speak of separated absolutes and provide no space for arrogant, domineering power. Rather, the human effort is to align, to flow, to be harmonious, to extend the ego widely, encompassing others and all our circumstances.

I would add to this Chinese approach from Buddhism the advice given by the Buddha in his first sermon to bring the Dharma into ourselves. The word Dharma, as used by the Buddha in that sermon, refers to a capacity to hold ourselves sustainably going forward with our feet firmly placed, one step after another, on the ground of reality. Our integrated persona of mind, heart and soul can do this through thoughts, understandings, focused concentration, words, actions and vocations which are integrated, one with the other, to give us ease and confidence. By placing us in the Dharma and the Dharma in us, Buddhism sees all of existence as a "dependent co-arising."

Then, from Japan, I would not overlook the naturalism which is Shinto. Under Shinto, with its acceptances of many powers called the Kami, in all things, we are to bring a "clean" mind, free of selfishness and individual hubris, to any meeting of ourselves and the Kami. This frame of reference leads to the Japanese social practice of giri-ninjo or mutual dependencies.

Let me conclude with an observation that the 17 U.N. Sustainable Development Goals (SDGs) and their 169 sub-goals reflect the Western technosphere and the rational approach of experts and the division of labor into various separate tasks, each with their own goal. The implementation process for the SDGs is rational, compartmentalized, bureaucratic, with annual reports on achievement, focused on data and finance.

Does the process have a heart or a soul? Is it really an integrated ecology? Does it need supplementation with a spiritual awareness?

The call of Laudato Si', let me suggest, is to integrate this Western action paradigm with a different one which draws on Eastern understandings of the human person as living always in mental and emotional partnership with reality.

To follow the recommendation of my Caux Round Table for Moral Capitalism colleague John Dalla Costa, this integration could be considered a "shared" ethic, with integration not being understood as dogmatic and an absolute oneness, solid and unyielding, but as a colloidal suspension where the amalgam is a harmonious dance of moving parts.
The Abrahamic religions can, perhaps, inspire and broker this integration through insight, discernment and then objectification of our stewardship responsibilities.

Conclusions and Recommendations

1) The teachings of Laudato Si' have proved their importance with each passing year. They enlighten humanity as to its fundamental personal obligation to protect our planet, of which we collectively are the only steward, and to care for our neighbors for whom we can relieve suffering and bring joy.

2) Our individual and collective vocation of stewardship begins with each person and is carried out as consumers, workers, managers and in families, parishes, schools, companies, unions, NGOs, towns, cities, provinces and regions, nations and internationally.

3) The path of stewardship before us for each person is clear: it begins with education, takes us through concern and commitment and leads to action. Laudato Si' is our compass as we care for our home and our communities.

4) Today, stewardship of our home and our communities is the cause of youth. Their call on those in power and authority for responsible leadership must be heard and honored now.

5) Stewardship is how we must live virtuously in self-confident communion with God and our neighbors near and far, made well by fulfillment of our most sacred calling to be doers of the word.

6) Now is the time for such virtuous action; for the flowering of human creativity and commitment to resolute endeavor. It is not a time to wait for "powers and principalities" which are too hard of hearing and too nearsighted; it is not a time to wait for them to blunder and stumble too late into action. Good shepherds should care for the flock and not themselves; those who can so lead, must. A coalition of the willing will follow.

7) Intelligent, innovative corrective actions are possible.

Short-Termism and Extreme Financialization

Hidden forces destroying our economy and our once overwhelmingly successful system of democratic capitalism

By John J. Mauriel

Most people believe that our tax, legal and regulatory systems need major changes. The tax code is too long and cumbersome, our legal system is complex and sometimes hard to understand and in the case of patents, very difficult to oversee and enforce and our regulatory process is either too slow and stifles innovation or is too weak (depending on whom you talk to about regulation). However, before any needed changes in these systems can be sustainably implemented, our systems need recovery or rebooting. Therefore, we must attack the powerful cultural forces blocking change. These forces, or operating systems, not only block such changes, but they also contribute to the cultural gridlock which now exists in our public dialogue and private conversations about economics and policy. They are potentially tearing apart the most powerful and productive system of democratic capitalism employed in the known history of our world.

The United States of America, this great experiment in representative government, set on a foundation which was to prevent any powerful group (party leaders, wealthy elites, big government, big business and especially new aristocrats) from amassing the strength and resources to restrict the freedom and opportunity of the general population to enjoy life, liberty and the pursuit of happiness (a shameful exception for the native people and the original slaves which Americans subsequently tried to fix with good intentions).

But, in order today to make needed changes to our complex, confusing and corrupting tax and legal systems, we need to deal with a big and potentially permanent barrier to upward socio-economic mobility that is sucking the life out of our democracy and stands in the way of important needed changes. One of our greatest assets as a nation – the availability of upward mobility for any underclass person or new immigrant to be given an opportunity to obtain life liberty and pursuit of happiness in a free and open society- is now in grave danger.

We must recognize where and why we have gone off the track by allowing a few powerful forces (hidden from most of us in our overdose of news, opinion and fake news) to misdirect the great potential of this great country. In other words, we must identify the roots of our chief problems. It will then be more possible to mobilize the will and political power needed to fix the systems that have carried us off course.

I note our cultural gridlock because the forces that now dictate how our financial economy works and for whom it works have introduced a change in the values and behavior of not only our great private corporate businesses, but also in almost all our other institutions – non-profit, government at all levels, providers of secondary and post- secondary education, faith-based organizations, foundations, arts organizations and others

A "grab all you can now" mindset, facilitated by our wealth and power gap and by excessive financialization, has spread to almost all other key institutions and groups in our society. "If those at the top are doing it, we also have to do it in order to survive." How did this culture of short-termism begin and how does it impact our entire society? Culture is a powerful force and that is what we must examine first – how and why did it change? What were the underlying causes? How and why has this happened?

Given our cultural fissures, even when we agree on the data, the facts before us can be interpreted and used very differently depending on situational or psycho-emotional perspectives (perceptual screen). Even if both sides in our divided culture (conservative/liberal, the 1%/99%, republican/democrat, business/labor) look at the same data, they draw different conclusions (unfortunately, they often look only at the subset of data which favors their predisposition or the needs of their constituents).

If different conclusions are drawn from the same data by different interest groups, then maybe we should step back and examine what our purpose is and what goals follow from that purpose.

I would ask, while business might have a goal to make profit, what purpose does it serve to deserve that profit? For Adam Smith and according to our early corporate laws and customs, a business must serve the public good for capitalism to be successful in building the wealth of a nation.

Yes, our founding fathers were concerned about a big and strong central government, fearing it would restrict hard-won freedoms and human rights they held dear. But, they were also concerned about too much power being held in private hands. Each state was given the authority to issue renewable charters that gave private citizens the privilege to pool assets obtained from other private citizens to build corporations that made products and services that would enhance the common good, but required more assets than an individual had, such as building factories, machinery, roads, farm equipment, etc. The charters of the early corporations specified what products and services they could provide to the public and these limits were usually enforced or the charter would not be renewed. Most early incorporated businesses built infrastructure, roads, bridges, factories and equipment to manufacture and distribute items needed for basic living. Courts relied on management to use judgement on how to distribute their economic profits to various stakeholders – employees, customers, local community needs not supplied by government and owners, and only intervened if there was dispute over legality from one of the stakeholders.[1]

Taking profitability or maximizing shareholder's long-term wealth as a goal for our private industry has been a major factor in the overwhelming success of the U.S. form of democratic capitalism in achieving our world economic dominance. But, the success of our system was made possible by our individual freedoms and the innovative culture it encouraged, the rule of law and some sensible regulation of the rules of the game.

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[1] For a learned discussion about the history of how our corporate law and regulatory system, starting from decisions in our early history to be a more democratic from of capitalism serving the common good as opposed to the former European trading companies whose goals were to maximize profits to the colonial owners, see Hurst, James W., *The Legitimacy of the Business Corporation in the Law and Practice in the United States 1780-1970,* (Charlottesville: University Press of Virginia 1970)

During the post WWII boom until about the late 1960s and 1970s, large publicly-held corporations had many individual shareholders to whom they and their boards of directors had no fiduciary responsibility other than 1) provide a fair return on investment to owners and 2) satisfy them that the rest of the company's profits were being invested in ways to benefit the company and its shareholders over the long run.

But taking as a goal a focus on short run profits as imbedded in our current business culture and practices can seriously thwart achieving long-term wealth creation by underfunding pensions, R&D, market development (sometimes called strategic investment), employee training (especially when human capital is a very fast-growing element of corporate and national wealth that is not fully included in our measure of economic growth) and allowing externalized costs to be paid by the taxpayer. When companies lay off large groups, their market cap goes up, but does this add to or reduce our human capital or national wealth? Or neither?

Some root causes of today's focus on short-term gain

There are many factors that have led to our current short-termism in corporate culture and decision-making. Most stock is now held by mutual funds, endowments, private equity firms or foundations and each of these have a fiduciary responsibility to their owners and they often evaluate their investment analysts on the basis of short-term quarterly performance. Thus, short-term pressure is put on stock price, causing corporate executives and board members (who are often paid in the form of stock options) to have an incentive to show as much short-term profit growth as possible.

Short-termism is both a cause of excess financialization and a catalyst to its present dominance of our economy and society. In combination, short-termism and financialization contain the seeds of the potential destruction of our democratic society and the neo-liberalism that made our country great. What is more alarming is that this attitude of financial gain in the short run has spread to our non-business organizations and the government, which is supposedly the guardian of the long run interests of society and socio-economic welfare.

But, in order to end the excesses they cause and the dominance they have over our economy and society, we need to first disable the system that protects them.

Many recent books, too numerous to mention, have been written by scholars, journalists, top executives in government and business outlining social, political and economic changes needed in policy, law and practice and many objective think tanks have outlined paths to system recovery, (e.g. the Pete G. Peterson Foundation, Center of the American Experiment, Urban Institute, Brookings Institution, etc.) but none of their proposed paths can succeed unless what I call the feudal /aristocratic system in which we now live is disbanded. I also used the word feudal to describe the system in the Middle Ages where the landed aristocracy owned all the wealth and the rest of the people worked for them on their terms to make the land productive.

Here is a list of four key factors that I believe are the root causes of the increased emphasis since about 1970 by citizens and our key institutions on short-term, personal financial gain:

1. Disparities in wealth, power and income which provide strong incentives for supporting the "financialization" of the economy, (which in turn benefits only people and organizations, including the government, who already have capital)[2] and thus the impact these disparities have had on our institutions, social mobility and our time horizon for measuring success.

2. Inaccurate measures for determining economic growth and assessing the achievement of the purpose of our organizations.

3. Misunderstanding the reasons for success and the vulnerabilities of our form of capitalism and of the shortcomings and failures of other economic systems.

4. Extremely high cost of health and education needed for success.

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2 The US government can mint money as it wishes as long as it remains the world's currency

Let us now examine each of these root causes:

Disparities in wealth, power and income and the financialization of the economy and the impact these two circumstances have had on our institutions, social mobility and our time horizon for measuring success

Wealth, income and power disparities, combined with excessive financialization of our economy that now present a systemic or structural barrier to upward socio-economic mobility, must be addressed before revisions of the tax, legal and regulatory systems that helped create such disparities can be implemented by our constitutional order.

Most people understand what resource disparities means, but what is financialization? It refers to the part of our economy that provides and services debt and investment such as banks, credit card companies, wealth managers, bond issuers, insurance companies (except health insurance) and any institution involved in corporate borrowing, student debt servicing, issuing mortgage debt or involved in other consumer or industrial lending. Estimates made by extrapolating from the latest figures available from a variety of sources indicate that our financial services sector employs about 4% of the population and generates about a third of our national income in the form of interest and fees. The latest figures reported indicate that total debt (consumer debt, home mortgage debt, credit card debt, student loan debt, corporate non-financial debt in bonds used to leverage profitability) amounts to almost two times of GDP and while still lower than in 2007, it has begun to grow again in recent years. In addition, our present federal debt is about equal to our GDP and growing steadily, due to recent large government deficits.

Prior to the run up to the great recession of 2007 and 2008, most lending by banks was used to build wealth (new buildings, factories, heavy equipment, consumer installment debt on appliances, etc.) Since then, much of finance has become speculative investment (purchase of existing properties, equipment, leases, etc.) to flip or speculate, trading in existing stock, and stock buybacks by fortune 500 companies as a way of increasing their stock price artificially. Meanwhile, less financial lending is made to start up new companies and to small businesses that are the major producers of new employment and real economic growth.

The most serious problem with this type of financialization is that it is absorbing too much of our productive economy. In early June, the Wall Street Journal reported that much of the growth in credit since 2007 has not come from the regulated banking industry, but rather from mortgage companies and other credit institutions known as the shadow banking industry that can ignore some of the regulation imposed on banks. Federal Reserve Board statistics show that big regulated banks still conducted business with over 90% borrowed money, indicating that they find ways around some of the legal capital requirements. Almost all the interest and fees paid for borrowing funds from any institution are going directly to those who already own all of the private capital in the U.S.

The Wall Street Journal article noted above also reported that riskier loans, like the ones that were the cause of the 2007 recession, are back again in the form of consumer loan obligations (CLOs). Remember the CMOs and the CDOs of the late 20th century and early 2000s? This is a prime example of excess financialization.

When caught in time, as it was in 2008, growth in excess financialization can be corrected and the economy can return to normal, though after some severe pain to many people. But at some point, the interest payments (student debt, credit card debt, public debt, corporate debt, etc.) become such a burden and absorb so much of the economy that correction is not possible without a deleveraging that could damage the economy or a complete systems revolution (either bloody or involving wealth redistribution).

In 2013, five years after the stock market crash, an article by Jordan Weismann, an economics journalist and former senior editor at the Atlantic, was published in the New York Times that began:

"Corporate profits are eating the economy, Derek Thompson wrote yesterday. And indeed, it seems they are. Company earnings are reaching new highs as a share of GDP. Wages are falling to new lows and the stock market is surging. It's not just that corporations are taking a bigger bite out of the country's wealth, though. It's the banks (by that I believe he meant chiefly shadow banking, investment banks, private equity, credit card cos. in particular) that became so enlarged in the run up to the recession. And that's an important part of understanding why workers are falling behind, while shareholders are pulling ahead."

Mr. Weismann also pointed out that the finance industry at that time employed fewer per dollar of earnings by far than the manufacturing sector, thus he asserted that it is contributing to unemployment. He noted that the financial sector claimed around a tenth of U.S. corporate profits in 2008 and by 2013, it collected almost 30 percent and that the finance sector had replaced the manufacturing center as the most profitable segment of the private business economy.

The concern also that he and many economists had been pointing out to us since the early part of this century is that the salaries and wages of average citizens had been flat since the early 1970s, while compensation for the top 5 to 10% of salary earners had grown substantially. More importantly, this has been a period in which the U.S., once a leader in upward mobility of the lower income groups, had fallen to almost the bottom of all developed countries on this measure, according to a recent report from the OECD.

"Now," Mr. Weismann continued, "six years after the official recovery of the great recession, the financial services industry (banks, insurance companies, stock brokers, wealth managers, credit card companies and corporate borrowing for non-productive reasons) represents a larger percentage of national income and net profit than it did in 2007." Meanwhile, the stock market continued providing increased wealth for owners of capital, while the lower economic strata of our society were not sharing in these gains. What is wrong with this?

Some members of the financial industry might say that this is a natural result of innovations in technology, transportation, communications and management in all aspects of private business processes and that the more recent economic growth that the U.S. has experienced since 2013 demonstrates that a free democratic society maintaining a strong private sector is the best way to grow an economy and thus improve general socio-economic well-being. Indications of this are that earnings of the lowest economic quintile seem to be rising again about as fast as GDP and our unemployment level is dropping. But, the great middle class is satisfying its needs to grow with the economy by engaging in what could prove to be an unsustainable growth in debt again.

What is wrong with financialization of the economy is the fact that all the benefits of improved productivity and output still go to those who have capital and to the financial services industry and they may therefore be on track to cause our total overall debt to choke our entire economy as it did in 2007. In addition, the erroneous measure of economic growth noted above and in the next section makes us feel that all is okay.

The fact that the increasing portion of our National Income is going to only those who own capital also strengthens this small group's ability to shape the rules of the game. Thus, we begin to operate like a feudal/aristocratic society where the owners of land and other property obtain most or all of the rewards of production increases (in interest, land rent and capital gains), increases which the employees in lower income strata feel they have contributed to.

Therefore, we must design better ways to achieve a balance between our individual freedoms to achieve economic wealth and position, while also assuring that some citizen groups do not face arbitrary barriers to achieving, with normal effort, the American dream.

Misleading metrics to assess long-term growth and achievement of corporate and societal purpose

Corporate profits which influence stock prices, if overstated, will lead to the illusion of growth by including a portion obtained through externalizing costs to the public (e.g. health care or clean-up costs of water and air pollution). In addition, new laws on executive pay over $1 million leading to the use of stock options in top executive pay, selection of friendly and sympathetic board members by the top executive (in most Fortune 500 companies, the CEO also serves as Chairman of the board) and the threat of hostile takeovers spurred on by the merger and acquisition flurry, have all led to incentives to improve immediate profits in order to raise short-term stock prices, thus increasing market cap.[3]

Successful, large privately-held public companies have a sizeable, discretionary cash flow (economic profits or the excess of revenue over direct costs) to distribute to their stakeholders (to customers in the form of lower prices, to employees in pay increases or other incentives and for research and market development to contribute to long run growth of the company and to stockholders in the form of dividends). Courts have historically allowed the free market and management judgement to determine how companies distributed this excess cash to its stakeholders, as long as a reasonable dividend was paid to owners.

Allocation of economic profit to various stakeholders in a productive manner is a very difficult process and is impossible to do optimally. Without input from social scientists and magic algorithms that can predict the future of many moving parts, who can determine how much profit is enough, how much pay is enough, how much other costs incurred would contribute to long run profit maximization and long-term life achievement and satisfaction? Underlying this last statement is the impossibility of developing adequate metrics for judging the best balance among all stakeholders. Thus, we have oversimplified our measurements and ended up with short-term gain to one stakeholder (owners) as a key metric to assess business success and the growth of the economy.

The reckoning has been delayed by the rise of consumer debt noted above (now about equal to GDP) to satisfy those who have not shared in the increase in wealth the economy has created.

A key problem with the distorted metric, Market Cap,[4] the commonly used measure we use to indicate the growth of our economy, is that is supposed to identify only the success of our private business sector, and it contains some overly generous assumptions that cause us to overstate both long run corporate

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[3] The combined value of all shares of private companies listed on the NYSE

profit growth and thus the growth of the economy and thus makes us think we are doing very well.

Incorrect diagnosis of the relative strengths and vulnerabilities of capitalism versus socialism

It may not be a coincidence that Adam Smith's Wealth of Nations was published in the same year our country was formed. He believed that capitalism would succeed as a powerful economic system only if its benefactors were ethical and tried to serve the common good. Capitalism means the private ownership of land and other forms of wealth and of the means of production, constrained only by law, social custom and a free representative democracy. It succeeds because innovation flourishes in an economy planned by the needs of free individuals in a free society exercising their choice in a market economy, but it needs existence of private property protected by the rule of law and certain rules of the game (regulation) that are simple and clear and prevent monopoly power over markets. Socialism, on the other hand, means the ownership of the wealth and the means of production by the government, thus economic planning by the government, not the market.

In socialism, the government could be democratic and representative of the needs of society or it could be a system ruled by a governing elite in an autocratic fashion – a system which often turns into communism and a repressive society planned not by societal wishes, but by the party leaders. Too much power in the hands of too few people (the government) and minimum incentive to produce more results. Therefore, it is inefficient and eventually can become repressive. Socialism fails if too much power is concentrated in the hands of the socialist party leaders, but capitalism's vulnerability comes about if too much power (capital) lands in the hands of too few people.

Social welfare states, which many European countries have, are capitalistic because the means of production are owned by the people. It works because the people have agreed to a system of social welfare paid for by high taxes, but with most products and services produced by the private sector. We think our form of democratic capitalism that existed here through most of our history up until the latter part of the 20th century works better because it provides what individuals want through a market system that is more efficient than a bureaucratic government planning system and more importantly, it mightily rewards innovation.

Cost of Education to achieve work that pays adequately

Instead of accepting Mr. Weismann's interpretation of the meaning of the finance industry's success, one could interpret the finance industry's performance as a tribute to their efficiency as measured by profits/employee, rather than focusing on number of employees and its size. It is interesting for us to note that the pre-K through 12th grade public education industry has had the opposite result, providing lower profitability (as measured by global test score comparisons), while spending more real $/student over the last many decades. Does that mean that this industry is creating value by reducing unemployment? Or is it destroying wealth by not educating our total population as effectively as most other advanced countries are? We do need to agree on the meaning of our data.

With the introduction of the common school in the middle of the 19th century, we provided quality public education, cost free, to all citizens (with the shameful exception of Native Americans and slaves which we have tried to correct in several, often clumsy and unsuccessful ways), the completion of which would qualify a person to obtain a job that would earn enough to support a family. Our "common schools" provided adequate primary and secondary education. Until WWII, a high school education was enough for anyone in the U.S. to obtain a well-paying job.

Then, as it became important to have a post-high school education to qualify for the better paying jobs to live almost anywhere one pleased in the post-war economy, the GI Bill supported veterans to obtain the required additional education and training, regardless of their family financial background. This supplemented the further growth of state-supported research universities which had begun in the late 19th century, serving all strata of society who could qualify.

Today, public universities have become quite expensive, even for the residents of their states. At the same time, they've turned their attention towards becoming a job training place for the professions, sometimes at the expense of educating people on how to think critically about their role and the role of the arts, sciences and ethics in shaping the culture in our society. As institutions now requiring heavy support from foundations, businesses and endowments, their ability to educate critical thinkers and social innovators has become more difficult. Business, law, medical, engineering, education and nursing schools find it more difficult to always be the "friendly critics" of their professions and of society's flaws that they need to be because they must be able to raise funds from their alumni and from society in general. And where do these recently acquired large grant funds go? To help students and keep their tuition and living costs low or to pay higher salaries to faculty in order to do the vast amount of research needed and demanded by the professions they train people for and perhaps needed by society in general, since the government support of basic research is dwindling.

Business schools have also developed close relationships with large businesses and government on whom they depend for grants and support and from whom they obtain research data. But, they must continue to pass on their cost of doing funded research to students who must incur substantial debt and thus a difficult road to the formation of capital. This also makes them less free, however, to be "friendly critics" of the practices of their business friends (many of them their alumni) on whom they depend for financial support.

A WAY FORWARD WITH PRACTICAL SOLUTIONS

While the critique of the present situation and its gridlock sometimes seems overwhelming and difficult to solve, there seems to be a rising level of concern and a growing willingness among a wide range of influential individuals and organizations to work hard to develop and implement solutions to the problems raised in this article. An increasing number of officials serving in the most productive parts of the finance industry, government officials in regulatory and financial executive roles, legislators, journalists, authors and many others in politically influential positions are calling for action. Many of these people have served in a variety of roles such that their abilities and experience will allow them to help make meaningful improvements in our financial service sector and in the socio-economic and political forces that currently are shaping our cultural norm affecting the finance and insurance industries. I am very optimistic that we will be able to put our finance industry ship in order again.

To understand the source of my optimism, I refer you to three of the many books published since the recession on the topic of financialization and its impact on our culture and economy. While their deep look at what has happened, added to some of what I hope are some new ways to understand the data presented in this article, can be shocking to readers, these books also summarize a variety of the wisdom they have collected from many influential people on how to solve our current predicament. Together, they provide practical solutions and a road map of how we can get to a better future.

The first is Makers and Takers: The Rise of Finance and the Fall of American Business by Rana Foroohar. Mrs. Foroohar has been acclaimed by both business and government officials, as well as academics and other respected journalists. She combines her many years of serious research and investigative reporting with her interview data from inside sources to come up with an analysis that presents a serious picture of where we are and where we can go to rescue this experiment in representative democratic capitalism.[5]

The other two are Stewardship: Lessons Learned from the Lost Culture of Wall Street and A Force for Good: How Enlightened Finance Can Restore Faith in Capitalism by John Taft, Vice Chairman of Baird and former Chairman of the Securities Industry and Financial Markets Association. Mr. Taft draws on his wide experience and discussions with other leading thinkers to identify the

[5] See Foroohar, Rana, Makers and Takers : the rise of finance and the fall of American business, Copyright 2016 by Rana Foroohar and published in the SU by Crown Busyness, an imprint of the Crown s of the Crown Publishing Group, a Division of Penguin Random House, NY, pages 324-326

proper role and purpose of the finance industry.[6] [7] His two books together do not delve as deeply into operating system details as Foroohar's, but they are crammed with his wisdom and the wisdom of his well-known and accomplished chapter authors and other contributors, who come from key positions in business, government and academia.

There have been many other best-selling books authored since the crisis that are also excellent. You will find references to many of them in the works of Foroohar and Taft.

While I am an optimist that our innovative free society is already working on and will figure out solutions to our current dilemma, I believe the clock is ticking!

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(Thanks to Chuck Denny, Steve Young and Richard Broderick for encouragement and helpful comments.)

Taft, John G., Stewardship-Lessons Learned From the Lost Culture of Wall Street, Copyright 2012 by John G Taft and published by John Wiley & Sons, Inc., Hoboken New Jersey. Published simultaneously in Canada

[7] Taft, John G., A Force For Good, copyright 2015 by John G. Taft and First Published by PALGRAVE MACMILLAN in the United States, the –a division of St Martin's Press LLC New York, NY 10010

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