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NETWORK LOOKING AT BUSINESS ABOVE THE CLUTTER AND CONFETTI



Pegasus

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Introduction

In this month's *Pegasus*, we have three complementary essays that focus on the nature of institutional capital and the proper roles and responsibilities of government. Given the intense debates surrounding both issues, especially after the last election, these two topics are especially timely.

Steve Young examines government in a piece titled, "What is the Purpose of Government?" In a polarized populace, government can seem to swing back and forth in its role. Ideally, however, the purpose of government ought to be a throughline for all government leaders and the citizens who elect them.

"Liberty, therefore, is part of the justice to be provided by government to individuals," Steve writes in prelude to the crucial words found in Federalist 51 outlining the requirements of a new constitution: "To form a more perfect union, establish justice, insure domestic tranquility, provide for the common defence, promote the general welfare and secure the blessings of liberty to ourselves and our posterity."

While citing Federalist 51, Steve also identifies these notions in ancient and diverse voices. He cites French discussions of the rights of man, teachings from the Hebrew Bible and the incisive thoughts of Chinese philosopher Mencius.

"For Mencius, good government – benevolent rule – righteous government – depended on securing for the people access to human, social and financial capitals... If governments are to be just, they must create conditions for the formation of good human capital, good social capital and as a result, provide for the formation of beneficial financial capitals."

Steve adds: "The ideal of the rule of law encapsulates the fundamental purpose of government to foster and protect capitals – human, social and financial." He also makes the case that trust is at the heart of these capitals.

"There can be no social capital without trust and only human capital provides each of us with the capacity to trust others or even ourselves."

In his essay, "Institutional Capital: The Overlooked Storehouse of Wealth," Michael Hartoonian echoes Steve's underlining of the importance of trust. This is Michael's second chapter in a trilogy on capital, focusing on human, institutional and social capital.

He argues that trust is something we know empirically, citing works by Francis Fukuyama, Stephen Covey and Henry Cloud. "...trust is the fuel of healthy relationships."

In a sense, trust depends on engaging with people in good faith, beginning from a positive position. "If, however, you believe that people are fundamentally evil or irrational, you hold to the emotions of fear and selfishness... ethical and economic growth are beyond your

understanding and you cling to the idea that people are out to get you. Of course, people who hold such emotions, regardless of the amount of money they accumulate, will always be poor in wealth, mind and spirit.”

He illustrates the concept of institutional capital, in part, through the institutional leadership of a city, St. Paul, Minnesota, in particular. He runs through a series of actions that have, effectively, eroded trust in the city’s institutional capital, especially the city’s challenges to retain a strong economic base.

“If you don’t keep your economic base strong, the city will eat its seed corn and starve its future, manifested in lack of security, lack of aesthetic quality and an out-migration of wealth, all the gnashing of teeth over the great “historic” past, notwithstanding.”

In a sense, the city needs to get back to basics, intentionally working to restore its institutional capital. “At the heart of every thriving community lies a network of relationships built on trust, empathy and mutual support. No city or institution can flourish in isolation. Our shared well-being depends on our willingness to engage with and care for one another. Building lasting institutional capital requires deliberate effort and a clear sense of purpose.”

Finally, in “America is Destroying its Social Capital,” Steve comments on a recent column by Suzy Welch in the Wall Street Journal. He notes that the family is at the core of social capital, yet Welch’s story says only 11% of Americans rate family as their top value. Without a focus on family, social capital erodes into hubris and self-indulgence. It underscores one of the top challenges facing our nation.

Dave Kansas
Editor-at-Large
Pegasus

What is the Purpose of Government?

Stephen B. Young

In advocating adoption of a proposed constitution for a federal government having sovereignty over the 13 recently United States of America, the essay Federalist 51 proposed:

Justice is the end of government. It is the end of civil society. It has ever been and ever will be pursued until it is obtained or until liberty be lost in the pursuit.

Previously, John Locke had proposed in his *Second Treatise of Government* that, “The end of government is the good of mankind.” (Sec. 229) Such a government, he argued, was to honor and implement – as agent or trustee – this intent of those who established it: “The mutual preservation of their *lives, liberties and estates*, which I call by the general name – *property*.” (Sec.123)

Property, in its fundamental meaning, points to individual felicity and well-being. The Latin word *proprius*, “one’s own, special,” was a translation of the Greek word *idioma*, denoting one’s individual, idiosyncratic “special character.” The Latin word *propriatatem* applied the criteria of one’s own to the ownership of things. The word *proprius* is cognate to our words proper and private, each denoting something very personal – manners or a special autonomous sphere of control and security.

Federalist 51 further conjoined the ideal self-in-possession with liberty. Liberty, therefore, is part of the justice to be provided by government to individuals. What is liberty? Is it not the ability to deploy our personal assets of every kind – tangible and intangible – our capitals – as we as individuals see best? Those capitals constitute the reality of our human agency – who we are and can be in putting ourselves to work as co-creators of the universe. Some of these capitals are social – our capacity to live responsibly in relationships. Others are financial – empowering our moral agency and the social capital we rely on for our pride in self and our happiness.

The draft constitution advocated by Federalist 51 provided this purpose for the proposed federal government:

to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defence, promote the general welfare and secure the blessings of liberty to ourselves and our posterity.

In other words, to secure the formation of human capital, create and sustain social capitals and secure the creation and deployment of financial capitals and defend all those capitals against loss.

A few years later in Paris, representatives of the French middle class (*tiers etat*) demanded fidelity to a new vision and mission for the governance of all French. They formulated their standard for the legitimacy of government in universal terms as the “rights of man,” which included the following permissions for the use of human and social capitals:

The aim of all political association is the preservation of the natural and imprescriptible rights of man. These rights are liberty, property, security and resistance to oppression.

Liberty consists in the freedom to do everything which injures no one else (in other words, the optimization of human agency).

Individual human capital was to be freely deployed to create social capitals:

No one shall be disquieted on account of his opinions, including his religious views, provided their manifestation does not disturb the public order established by law. ... The free communication of ideas and opinions is one of the most precious of the rights of man. Every citizen may, accordingly, speak, write and print with freedom, but shall be responsible for such abuses of this freedom as shall be defined by law.

In the Hebrew prophetic tradition, we find a similar vision of just government:

Thus says the Lord God: Ah, shepherds of Israel who have been feeding yourselves! Should not shepherds feed the sheep? You eat the fat, you clothe yourselves with the wool, you slaughter the fat ones, but you do not feed the sheep. The weak you have not strengthened, the sick you have not healed, the injured you have not bound up, the strayed you have not brought back, the lost you have not sought and with force and harshness you have ruled them. So, they were scattered, because there was no shepherd and they became food for all the wild beasts. ...

Behold, I am against the shepherds and I will require my sheep at their hand. ...

I will feed them with good pasture, ... I will seek the lost and ... bring back the strayed and ... bind up the injured and I will strengthen the weak ... I will feed them in justice.... They shall no more be a prey to the nations, nor shall the beasts of the land devour them. They shall dwell securely and none shall make them afraid. (Ezekiel 34)

In China, Mencius had similar views about the justice required from rulers:

Mencius went to see King Hui of Liang. The king said, “Venerable sir, since you have not counted it far to come here, a distance of a thousand li, may I presume that you are provided with counsels to profit my kingdom?”

Mencius replied, “Why must your Majesty use that word “profit?” What I am provided with

are counsels to benevolence and righteousness and these are my only topics. If your Majesty say, “What is to be done to profit my kingdom?” the great officers will say, “What is to be done to profit our families?” and the inferior officers and the common people will say, “What is to be done to profit our persons?” Superiors and inferiors will try to snatch this profit the one from the other and the kingdom will be endangered. ... if righteousness be put last and profit be put first, [your people] will not be satisfied without snatching all. ... Let your Majesty also say, “Benevolence and righteousness and let these be your only themes.” Why must you use that word – “profit?”

For Mencius, good government – benevolent rule – righteous government – depended on securing for the people access to human, social and financial capitals:

There is a way to get the kingdom: Get the people and the kingdom is got. There is a way to get the people: Get their hearts and the people are got. There is a way to get their hearts: It is simply to collect for them what they like and not to lay on them what they dislike. The people turn to a benevolent rule as water flows downwards and as wild beasts fly to the wilderness.

Mencius advised rulers to educate the people in moral character development their individual human capital and to permit free markets for artisans and farmers to be rewarded and items of all descriptions be made available for sale.

For Mencius, government was a kind of stewardship over assets which provided the people with rewarding opportunities.

In Thailand, there are 10 rules for the king to follow to let the people flourish in their own private lives:

1. Charity – being prepared to sacrifice one’s own pleasure for the well-being of the public, serving public interests.
2. Morality – practicing physical and mental morals and being a good example of others.
3. Altruism – being generous and avoiding selfishness, practicing altruism.
4. Honesty – being honest and sincere towards others, performing one’s duties with loyalty and sincerity to others.
5. Gentleness – having gentle temperament, avoiding arrogance and never defaming others.
6. Self-governance – destroying passion and performing duties without indolence.
7. Non-anger – being free from hatred and remaining calm in the midst of confusion.

8. Non-violence – exercising non-violence, not being vengeful.

9. Forbearance – practicing patience and trembling to serve public interests.

10. Uprightness – respecting opinions of other persons, avoiding prejudice and promoting public peace and order.

What would our lives be like if all governments were: Self-sacrificing/ego-less, moral, altruistic, honest, gentle, restrained, calm and tolerant, patient and principled stewards of public tranquility?

My thesis on public governance is that if governments are to be just, they must create conditions for the formation of good human capital, good social capital and, as a result, provide for the formation of beneficial financial capitals.

Evidence supporting the practical truth of this recommendation is overwhelming – in history and in the world in which we live today. In history, lack of wealth-creation coincided with rent extracting governments, mostly tribal, monarchical or aristocratical/elitist. The exceptions were occasional city-states like Athens, Rome as a republic and much later Baghdad, Venice, Florence.

In 2020, the Caux Round Table estimated the social capital accumulations of all countries. The countries which had the highest quality social capital were: Switzerland, Norway, Denmark, New Zealand, Finland, Sweden, Netherlands, Australia and Canada.

The countries with the lowest quality social capital were: Tajikistan, Angola, Iraq, Congo Republic (Brazzaville), Zimbabwe, Venezuela, Afghanistan, Sudan, Burundi, Chad, Central African Republic and the Congo Democratic Republic (Kinshasa).

None of these countries have created wealth for their people. In Sudan, an estimated 150,000 people have been killed in recent years. Since 1998, an estimated 5.4 million people have died in the eastern Congo (Kinshasa). In Afghanistan, women and girls have strict limits on the development and deployment of their human capital. There is little social capital available outside of an intolerant Islamism.

In commenting on failed states in Africa, Walter Russell Mead wrote in the Wall Street Journal recently:

While pushing for regime change in Venezuela and launching into nation-building in Gaza, the indefatigable American president got into promoting humanitarian intervention in Africa by repeating his threat to use force against what many in the Trump administration are now calling a genocide of Christians in Nigeria. ...

Not that America's remaining neoconservatives and liberal internationalists are applauding the president's global focus. The axis of "fact checkers" was quick to debunk Mr. Trump's genocide charge, pointing out, accurately, that Nigeria's ever-deepening crises of instability and poor governance affect Muslims, too. Reducing the witches' brew of tribal conflict, social disintegration, jihadist insurgency and religious violence afflicting that country to a charge of Christian genocide misses the complexity and scale of the horror.

All fair enough, but in one respect at least Mr. Trump is streets ahead of the NGO drones and aid hustlers who dominate conventional Africa policy conversations. Despite the endless happy talk from the Africa lobby, more African states are moving away from democracy than toward it. The green-energy transition isn't Africa's great hope. Africa's states, by and large, aren't becoming more competent, more well-established and more secure. Nor is Africa in general or any African state in particular emerging as an important global actor. And the Western NGO complex has no idea how to fix any of these problems.

Pursuant to the Caux Round Table Principles for Government, sovereign political authorities are to act according to these standards:

Public power constitutes a civic order for the safety and common good of its members. The civic order, as a moral order, protects and promotes the integrity, dignity and self-respect of its members in their capacity as citizens and therefore, avoid all measures, oppressive and other, whose tendency is to transform the citizen into a subject. The state shall protect, give legitimacy to or restore all those principles and institutions which sustain the moral integrity, self-respect and civic identity of the individual citizen and which also serve to inhibit processes of civic estrangement, dissolution of the civic bond and civic disaggregation. This effort by the civic order itself protects the citizen's capacity to contribute to the well-being of the civic order.

The civic order, through its instrumentalities, shall provide for the security of life, liberty and property for its citizens in order to insure domestic tranquility.

The civic order and its instrumentalities shall be impartial among citizens without regard to condition, origin, sex or other fundamental, inherent attributes. Yet, the civic order shall distinguish among citizens according to merit and desert where rights, benefits or privileges are best allocated according to effort and achievement, rather than as birth-rights.

The civic order shall provide speedy, impartial and fair redress of grievances against the state, its instruments, other citizens and aliens.

The rule of law shall be honored and sustained, supported by honest and impartial tribunals and legislative checks and balances.

The state shall nurture and support all those social institutions most conducive to the free self-development and self-regard of the individual citizen. Public authority shall seek to avoid or to ameliorate conditions of life and work which deprive the individual citizen of dignity and self-regard or which permit powerful citizens to exploit the weak.

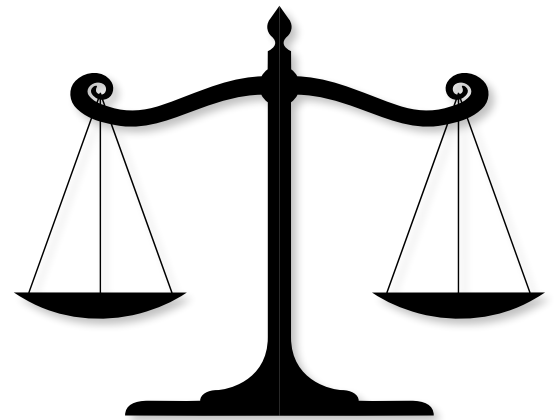
The state has a custodial responsibility to manage and conserve the material and other resources that sustain the present and future well-being of the community.

The civic order shall not act with excessive secrecy or provide its citizens with inadequate information as to the acts and intentions of the civic order and its instruments, which secrecy or withholding of information would prevent its citizens from participating in the discourse that provides the civic order with its legitimate authority.

The Rule of Law

The ideal of the rule of law encapsulates the fundamental purpose of government to foster and protect capitals – human, social and financial. The rule of law decentralizes decision-making to individuals and civil society by limiting the discretion of public officials and their organizations. Law, thus, seeks to create and preserve “safe spaces” for private activity and initiative. Individuals are, thus, encouraged to work, to seek and to dream in ways which bring them happiness and well-being through engagement of their own capabilities and their own moral agency with the ecosystem that surrounds them.

The rule of law provides checks and balances both on public authority, which may not be arbitrary or capricious and on private power, which must not be used to abuse the rights and freedom of others or cancel the opportunities which they might instrumentalize to succor themselves and their families.



The rule of law holds that public power is public trust so that those who hold public office may not use their authority directly or indirectly to benefit themselves personally. Accepting public office is to accept fiduciary responsibilities for the care of others.

Social Capital

Social capital – organized relationships that produce and sustain cooperation and collective action, which, in turn, make possible the achievement of common goals and provide individuals with cultural, social and economic benefits – creates human capital. Consider Rudyard Kipling’s story about Mowgli – the boy raised by a wolf, where the wolf was a formative capital asset for the boy in his becoming a man.

Social capital first engenders cultural capital – most especially language, without which there can be no human relationships or any processing of reality for one’s survival and flourishing. Language permits thinking and reasoning, recording perceptions usefully. Language then reciprocates by permitting the formation of social capital – relationships, understanding, expression of moral norms, friendships, exchange of goods and goodwill, politics and governance.



Confucius said of language: “If names be not correct, language is not in accordance with the truth of things. If language be not in accordance with the truth of things, affairs cannot be carried on to success.”

Social capital is institutionalized in markets, customs and law. Adam Smith discussed this in his lectures on jurisprudence.

The International Covenant on Economic, Social and Cultural Rights of 1966 includes several provisions enjoining governments to protect social capitals:

Article 4 mentions promoting the general welfare in a democratic society.

Article 6 protects the right to work, which requires social structures providing employment and includes the right of everyone to the opportunity to gain his living by work which he freely chooses or accepts, so that alternative sources of employment must be provided at the level of organized society.

Article 10 requires that “The widest possible protection and assistance should be accorded to the family, which is the natural and fundamental group unit of society, particularly for its establishment and while it is responsible for the care and education of dependent children.”

Article 13 stipulates that governments must provide the social capital of education and that such education shall be directed to the full development of the human personality and the sense of its dignity and shall strengthen the respect for human rights and fundamental freedoms. Such education “shall enable all persons to participate effectively in a free society, promote understanding, tolerance and friendship among all nations and all racial, ethnic or religious groups” ... which contemplates sustaining the social capital provided by civil society organizations.

Human Capital

In his book, *The Theory of Moral Sentiments*, Smith focused on the core competency of human capital, the conscience or what Smith called, following the Greek and Roman Stoics, the “spirited mind within the breast” that made objective judgments on our conduct and our

reasoning. Heraclitus put this understanding of who we most importantly are as *ethos anthropos daimon* or “ethics is our inner governor.”

There can be no social capital without trust and only human capital provides each of us with the capacity to trust others or even ourselves. Those who cannot trust themselves lead sad and upsetting lives and fail to successfully engage with others in so many ways.

Human capital provides society with reliance – enabling partnerships and agreements to perform in the future.

Human capital provides society with responsibility and reciprocity, the building blocks for accepting tasks and duties, for acting appropriately in roles such as father, mother, son, daughter, policeman, grocer, carpenter ...

The deployment of human capital in markets creates wealth for self and others.

The Universal Declaration of Human Rights of 1948 resulted from a moral concern to “promote social progress and better standards of life in larger freedom” through respect for individual rights.

Article 1 of the declaration asks that everyone “should act towards one another in a spirit of brotherhood.”

Article 22 holds that:

Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each state, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

Article 6 holds that:

Everyone has the right to recognition everywhere as a person before the law, making personhood the basis for social and political justice.



Article 16 holds that:

Men and women of full age, without any limitation due to race, nationality or religion, have the right to marry and to found a family. They are entitled to equal rights as to marriage, during marriage and at its dissolution.

Marriage shall be entered into only with the free and full consent of the intending spouses.

The family is the natural and fundamental group unit of society and is entitled to protection by society and the State.

Article 17 holds that:

Everyone has the right to own property alone, as well as in association with others.

No one shall be arbitrarily deprived of his property.

Article 23 holds that:

Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.

Everyone, without any discrimination, has the right to equal pay for equal work.

Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity and supplemented, if necessary, by other means of social protection.

Article 25 holds that:

Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

Article 26 holds that:

Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be

equally accessible to all on the basis of merit.

Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms. It shall promote understanding, tolerance and friendship among all nations, racial or religious groups and shall further the activities of the United Nations for the maintenance of peace.

Parents have a prior right to choose the kind of education that shall be given to their children.

These provisions give protection to the formation of human capital: intellectual and emotional; empowerment of personal agency in relationships; consistent material well-being.

The following provisions of the declaration allow human capital to freely create social and cultural capitals.

Article 19 holds that:

Everyone has the right to freedom of opinion and expression. This right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media, regardless of frontiers.

Article 20 holds that:

Everyone has the right to freedom of peaceful assembly and association.

No one may be compelled to belong to an association.

Article 27 holds that:

Everyone has the right freely to participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits.

Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author.

Agency Welfare Economics

Another recognition of human capital emerged in welfare economics when Amartya Sen and Martha Nussbaum combined and drew attention to ideas that had been previously excluded from (or inadequately formulated in) traditional approaches to welfare economics. Their capability approach to human well-being (also referred to as the capabilities approach) is a normative approach to human welfare that concentrates on the actual capability

of persons to achieve the lives they value, rather than having just a legal right on paper or a theoretical freedom to achieve what they want. Capabilities denote a person's opportunity and ability to generate valuable outcomes, just as financial capital provides a return on money invested.

Nussbaum further distinguishes between internal capabilities that are personal abilities and combined capabilities that are defined as internal capabilities together with the social/political/economic conditions in which functioning can actually be chosen. She, thus, merges human capital with social capital as the corpus of value providing a return on personal investment.

The capability approach to human capital uses structural/functional analysis: What structures either enable or restrict individuals from performing functions which realize their intentions? In this approach, living may be seen as a set of interrelated functions. Essentially, such functionings are states and activities constitutive of a person's fully energized state of being, the reality of their lived experiences, mental and physical.



Amartya Sen and Martha Nussbaum

Thinking of deployment of human capital, Amartya Sen defined an agent as someone who acts and brings about change, whose achievement can be evaluated in terms of his or her own values and goals. For the purposes of the capability approach, agency primarily refers to a person's role as a member of society, with the ability to participate in economic, social and political actions. Therefore, agency is crucial in assessing one's capabilities and any economic, social or political barriers to one's achieving substantive freedoms. Concern for agency stresses that participation, public debate, democratic practice and empowerment should be fostered alongside well-being. Agency, here, reflects the capability of one's total stock of human capital.

Nussbaum claims that a political order can only be just if it secures for all its constituents at least a threshold level of 10 agency capabilities. Each one of these agency capabilities is a form of human capital. Nussbaum's core capabilities are:

1. Life – being able to live a human life of normal length; not dying prematurely or before one's life is so reduced as to be not worth living.
2. Bodily health – being able to have good health, including reproductive health; to be adequately nourished; to have adequate shelter.

3. Bodily integrity – being able to move freely from place to place; to be secure against violent assault, including sexual assault and domestic violence; having opportunities for sexual satisfaction and for choice in matters of reproduction.
4. Senses, imagination and thought – being able to use the senses, to imagine, think and reason and to do these things in a “truly human” way, a way informed and cultivated by an adequate education, including, but by no means limited to literacy and basic mathematical and scientific training. Being able to use imagination and thought in connection with experiencing and producing works and events of one’s own choice, religious, literary, musical and so forth. Being able to use one’s mind in ways protected by guarantees of freedom of expression with respect to both political and artistic speech and freedom of religious exercise. Being able to have pleasurable experiences and to avoid non-beneficial pain.
5. Emotions – being able to have attachments to things and people outside ourselves; to love those who love and care for us, to grieve at their absence; in general, to love, to grieve, to experience longing, gratitude and justified anger. Not having one’s emotional development blighted by fear and anxiety (supporting this capability means supporting forms of human association that can be shown to be crucial in their development).
6. Practical reason – being able to form a conception of the good and to engage in critical reflection about the planning of one’s life (this entails protection for the liberty of conscience and religious observance).
7. Affiliation – being able to live with and toward others, to recognize and show concern for other humans, to engage in various forms of social interaction; to be able to imagine the situation of another. (Protecting this capability means protecting institutions that constitute and nourish such forms of affiliation, and also protecting the freedom of assembly and political speech.)
8. Other species – having the social bases of self-respect and non-humiliation; being able to be treated as a dignified being whose worth is equal to that of others. This entails provisions of non-discrimination on the basis of race, sex, sexual orientation, ethnicity, caste, religion, national origin and species.
9. Play – being able to laugh, to play, to enjoy recreational activities.
10. Control over one’s environment – being able to participate effectively in political choices that govern one’s life; having the right of political participation, protections of free speech and association.

Human Development Index

A measurement of human capital stocks in different countries is provided by the United Nations Human Development Index.

The countries with the highest human development scores for 2025 are: Iceland, Norway, Switzerland, Denmark, Germany, Sweden, Australia, Hong Kong, China (SAR), Netherlands and Belgium.

The countries with the lowest human development scores for 2025 are: Mozambique, Madagascar, Yemen, Sierra Leone, Burkina Faso, Burundi, Mali, Niger, Chad, Central African Republic, Somalia and South Sudan.

Conclusion

Justice, as with equity, is a measure of outcomes. For human persons, the relevant life outcomes result from the investment in activity of owned human capital and accessible social and financial capitals, honoring a very personal vocation with commitment and action, if you will. The individual as a self-system, the culture and society and the economy provide advantages and disadvantages for all persons, one by one. Access to quality capitals provides more advantages and so adds more satisfying fulfillment to human living. Government, therefore, can enhance or degrade the fulfillment of those under its sway by enhancing or degrading the human, social and financial capitals possessed by members of the society it rules and manages, for better or worse.

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

Institutional Capital: The Overlooked Storehouse of Wealth

Michael Hartoonian

*The virtuous man is driven by responsibility;
The non-virtuous are driven by profit.
-Confucius*

*As institutional capital (trust) erodes,
The basic assumptions of fairness, shared values,
And equal opportunities are no longer taken for granted.
-Richard Edelman*

Introduction

Edelman's idea of trust centers on institutional capital, viewed as respect earned over time. This respect results from a synergy of human, institutional and social capital, often reflected in financial success, improved quality of life, and engaged, satisfied citizens. This we know empirically (*Trust* – Francis Fukuyama; *The Speed of Trust* – Stephen Covey; *Trust* – Henry Cloud), that trust is the fuel of healthy relationships. It is also the foundation of capital creation, based on the ethic of care. In this chapter, we will look at institutions such as business, education, government and religion, with examples from specific cities and unique circumstances. The point will be to discover a set of principles that firms and families can use to build their institutional capital, while keeping in mind the reciprocal trust of institutions to individuals and the larger community. Trust, therefore, is not simply a moral or philosophical ideal. It is a practical necessity for the functioning of any society. When institutions foster trust, they create environments where individuals feel secure, motivated and willing to collaborate toward common goals. This dynamic not only strengthens the fabric of the institution itself, but also contributes to a more resilient and prosperous community. We will dilate on what and how institutions enhance their capital.

Institutional Flow

Using a metaphor of a 13th century European castle, I would like us to focus on a common design element of that structure – the moat.

This was a defensive barrier surrounding the castle, often filled with water. If you think of the castle as an institution, with a responsibility for security and capital creation, feeding the citizens therein, such a protective barrier would truncate any material or intellectual growth owing to the fact that its inhabitants are kept in fear of the other and incapable of healthy relationships, even within their own smaller group. They are hardly fit for defending their community.



Institutions, including nations, living in fear, are also incapable of wealth creation. Present-day nations see their moats as tariffs and claim benefits, absent any historical, intellectual or economic evidence. Like it or not, moats and tariffs interfere with innovation, wealth creation and moral responsibility and yes, long-term security. What evolves is a 14th or 21st century feudalism, complete with a “God-given” class (caste) system. The divine right of a wannabe king or tyrant is always waiting to be claimed and often given by fearful idiots – people who are alone and refuse to participate in the polis, city or even the institutions necessary for human existence.

A better metaphor, one that will bring us closer to thinking about enhancing institutional capital, is a fountain or spring that waters not only the adjacent land, but the larger landscape, bringing life, food and health to all within reach. But even more, the water, thus spread, brings together people, ideas and the hope of harmony and peace. If, however, you believe that people are fundamentally evil or irrational, you hold to the emotions of fear and selfishness and to the moat or tariff fiction. Ethical and economic growth are beyond your understanding and you cling to the idea that people are out to get you. Of course, people who hold such emotions, regardless of the amount of money they accumulate, will always be poor

in wealth, mind and spirit. Moreover, they will not be fun to be around because they are filled with themselves and hatred for others – corrupting even members of their own family or tribe. These behaviors stop the natural flow and growth of institutions and the people who manage them and those who work, learn and play there. So, they stick with the traditions of fear, not realizing that such traditions are analogous to living in a (cave) trench – a grave, if you like, with the ends kicked out.



How Institutions Create and Destroy Capital

At this point, I would like to site St. Paul, Minnesota, as an example of a city that seems ambivalent to the responsibilities of wealth and capital creation. While the city is blessed with a great deal of properties that are off the tax rolls, one of its most troubling assumptions, also held by many citizens, is the notion that the city’s job is to simply collect tax revenues and pay public expenses. This never was and never can be the first task of city government. The most important work of the city is the creation of wealth or capital by forming partnerships with businesses and understanding that there can be no common wealth without private wealth. The second responsibility of local governmental institutions is to create quality material and ethical infrastructures. Absent this knowledge, citizens will simply believe that all that is necessary is a set of priorities to suggest where common/general revenues should be allocated, with little insight into how to grow capital. So, the revenue diminishes, while the needs of cities continue to expand.

There are many examples of governmental and citizen ignorance in this and other cities. Take, as one case in point, the story of U.S. Bank. Several years ago, the U.S. Bank office building in downtown St. Paul carried a value of 200 million dollars, with appropriate tax value revenues going to the city. Today, the building is worth 2 million dollars, with no buyers. The tax implications of this atrophy are clear – home property taxes are up and services are down. If you don't keep your economic base strong, the city will eat its seed corn and starve its future, manifested in lack of security, lack of aesthetic quality and an out-migration of wealth, all the gnashing of teeth over the great "historic" past, notwithstanding. I would advise people to bring their own property and neighborhoods into compliance with what is best for citizen harmony and the economic growth of the city. Please don't simply ask or look for someone else to do the work. In ancient Athens, such freeloaders were called idiots.

Another case in point is the strained relationship between universities and adjacent neighborhoods. Acting more like they are surrounded by moats, rather than by nurturing fountains, universities miss the opportunity to engage the public in the cultural heritage that they claim to teach and protect. Why aren't their classrooms open, free of charge, for senior citizens to audit, for example? Why don't universities hold seminars on contemporary issues in commercial spaces and churches? As professional educators, their job is to inform and teach all. At most city universities, less than 10 percent of the students are local. Like it or not, universities are supported by neighbors. What are they doing for 90 percent of neighbors? Holding to the moat mentality simply makes universities less relevant.

In many cities, another example of enhancing capital is through the redevelopment or improvement of property by using tax increment financing (TIF), which is a mechanism codified in state laws that qualifies a project if it is found to be (a) remediating blight/sub-standard structures and (b) necessary to fulfill a required financial return. There is a current project in St. Paul that was reviewed by multiple third-party consultants hired by the city and found to follow these required tests. However, many citizens believe this money should go into affordable housing, rent control or other ideas unrelated to market realities and thus, absent attention to personal and public wealth creation. At play is the purpose of TIF, which works by "rebating" a project through a portion of the new additional property tax revenue (the "increment" in TIF) that it generates. Obviously, it only generates increments if it indeed moves forward. As an example: if a property today generates \$100,000 in annual property taxes and will generate \$500,000 in property taxes once redeveloped, TIF will rebate back a portion of the net additional \$400,000 to the developer as subsidy to get the financing metrics to a minimum viable state. No funds are diverted from anywhere else. No one receives any cash handouts. It is simply a property tax rebate used and sized to produce financeable return metrics and cities like St. Paul should be constantly looking for such opportunities so it can find and create institutional capital, helping families, businesses and other institutions thrive in a flow of reciprocal responsibility. We must think long-term. That is, understand what economists call patient capital.

Friendship and the Polis

Friendship takes two forms: transactional, where it's about what you gain and relational, where it's about how you improve each other's lives. Relational friendships, built on character and virtue, bring harmony, happiness and wealth. Cities work similarly – seeing institutions as partners leads to greater benefits for everyone. Ethical relationships build both human and institutional capital, essential for overcoming poverty and ignorance. Transactional friendships, including marriages, rarely last.

How does friendship affect a city's health? Relational friendships promote virtue, much like the laws that guide a community. A well-ordered city relies on citizens to choose rational, principled actions, fostering virtuous habits through education and example. In this way, the city becomes a place where residents learn civic responsibility, form meaningful friendships and pursue fulfilling lives together.

Institutional Capital: The Bridge between Human and Social Capital

As communities are defined by the health of their institutions, so institutions are defined by the intellectual and ethical health of the individuals who live, work, worship and play therein.

Institutional capital serves as the essential link between the personal virtues and relationships that make up human capital and the broader network of connections and shared values that define social capital. It consists of the systems, norms and collaborative frameworks established by organizations, governments and communities, enabling individuals to work together toward common goals. When nurtured, institutional capital facilitates innovation, trust and resilience, allowing both individuals and societies to flourish beyond their immediate interests.

An institution's primary purpose is to impart its habits, norms, responsibilities and civic virtues on its members. For instance, simply fathering a child does not make someone a true father without assuming the necessary responsibilities. Be it government, business, family, house of worship or organized sports, without teaching virtue, institutional capital becomes vulgar, used primarily in service to corruption.

When citizens and leaders fail to recognize the importance of fostering both private and public investment, cities risk stagnation and decline. Proactive engagement, transparency in decision-making and a willingness to adapt are critical components in reversing negative trends and building a sustainable economic future. By embracing innovative approaches and encouraging broad participation, communities can ensure a more equitable distribution of resources and opportunities, strengthening the civic fabric for generations to come. The question that every institution must ask every day is – what are we teaching and why?

If a society is healthy, individuals work, play and live in several institutions as part of their civic life. Citizens meet and discuss simple joys and serious issues in church, while shopping, at the rotary club, at work, at soccer games, etc. Because they are commonly engaged in many institutions, they share and reinforce virtues taught at other institutions. This is the primary attribute of the good society. Healthy institutions make for healthy individuals and societies. The synergy among all three is a good example of the concept of flow, where individuals experience focused engagement and a rewarding purpose to their lives. These people live lives of joy, discipline and love because they continue learning and have the opportunity to employ those new skills, leading to an ever-increasing enhancement of individual, institutional and social capital.

We Are, by Nature, Social and Rational Animals

Institutions serve as fundamental pathways toward relegalizing our humanity. Drawing on the Aristotelian perspective, being human is defined by our capacity for reason and our alignment with natural laws. This suggests that ethical behaviors arise not from external compulsion, but from voluntary compliance with laws that promote the well-being of the community. The “law of nature” refers to the principle that, within institutions, we seek to embody the order and harmony inherent in the natural world. It prompts reflection on whether the complexity around us is merely accidental, especially considering that much of our constructed environment often lacks alignment with principles of reason, aesthetics and social cohesion. The journey to becoming truly human requires effort. While many have strayed from this path, those who seek wisdom and meaningful relationships can achieve enlightenment. Ultimately, the quality of our institutions shapes our future.

All We Have is Each Other

At the heart of every thriving community lies a network of relationships built on trust, empathy and mutual support. No city or institution can flourish in isolation. Our shared well-being depends on our willingness to engage with and care for one another. Whether in moments of celebration or hardship, it is our connections with others that sustain us, reminding us that community is not just a place, but a collective commitment to one another’s growth and happiness.

One of the lessons learned in highly competitive sports or serving in the military is the realization that winning and survival depends on others around you. A running back in American football is helpless without a good offensive line to open holes in the defense so running is even possible. A pilot is grounded without a good team of mechanics. A city is only safe from fear when all citizens are connected, not by retribution, but by modeling and teaching. Teaching that every one of us makes the city better through our character, our service and our understanding that the better off our neighbors are, the better off I will be. In this, our institutions are the first teachers. Starting with the family, then school, place of worship, work and play, institutions teach their members reason, civic virtue and friendship

“I want my family to be as healthy, wealthy and wise as possible because the better the family, firm or government, the better I will be.” We lift each other and in so doing, we lift ourselves.

Creating Institutional Capital: Principles and Practices

Building lasting institutional capital requires deliberate effort and a clear sense of purpose. Effective institutions prioritize the cultivation of shared values, consistent leadership and transparent systems that support collaboration and accountability. Regular reflection on institutional goals and practices, as well as openness to feedback and reform, ensures that organizations remain responsive to the evolving needs of their members and the broader community. By embedding principles of fairness, stewardship and inclusiveness into their everyday operations, institutions not only preserve their integrity, but also inspire trust and participation from all stakeholders. And of course, enhance their capital.

The following practices are reflected in the Caux Round Table Principles for Business:

- Cultivating trust in the belief that individuals can collaborate and flourish by embracing a spirit of care.
- Replacing fear with human engagement.
- Knowing and teaching that there can be no private wealth without common wealth, nor common wealth without private wealth.
- Helping others to gain competencies as to understanding that information without reflection/thinking is useless, even dangerous.
- Having the will and learning the ability to critique personal theories about how the world works.
- Understanding and showing evidence that the individual is better off when the several institutions to which that individual belongs are all creating wealth (capital) – better families make for better schools, better schools make for better government, better government makes for better commerce, etc.
- Working to consistently improve oneself and institutions through adherence to virtue leads to both excellence and prosperity.

More information about the principles can be found [here](#).

Michael Hartoonian is Associate Editor of Pegasus.

America is Destroying its Social Capital

Stephen B. Young

In a recent column in the Wall Street Journal, Suzy Welch reported on the results of some survey research on what nearly 90,000 Americans value most.

The social capital of family has, since the dawn of the human race, shaped the human capital of individuals. Not to have a family often is to mature having a deficit in reliable and resilient human capital.

According to Welch:

Only 11% of Americans rank family as their No. 1 value. Even among the wealthy and married, the demographic group that ranks family the highest, that figure climbs only to 15%. Less than half of all Americans (48%) place family in their top five values, 35% rank it midrange and 17% put it in their bottom five values. ...

But the implication is clear: For many Americans, personal well-being matters more than family. Across nearly every demographic, two values almost always outrank family. The first is eudemonia, a Greek term [we use] to encompass self-care, leisure and pleasure – essentially, things that feel good to us. This is a top-five value for 62% of Americans, albeit skewing higher with younger generations. The second value is voice, the term we use to describe the desire for authentic, individualistic self-expression – for instance, the freedom to be oneself without judgment from others. It is a top-five value for 59% of Americans, especially among younger generations. ...

The term “work-life balance,” which entered the national lexicon in the late 1970s, surged in conversations again during the pandemic. In my experience, the term is widely interpreted as time for work versus family and employers have adjusted their policies and expectations accordingly. But our findings suggest that for many Americans, the “life” side is actually self-care and self-expression.

A personal, life-long, relentless and unswerving focus of inner psychic energies and emotions on self-care and untutored self-expression and not on relationships or responsibilities – the foundations for social capital – is to bring about a collective future driven by alienated, self-seeking and profoundly hubristic narcissists. Nemesis is waiting for them.

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



“You don’t have to eat it now, but we both know you’re gonna be hangry in, like, two hours.”

Cartoon by Sophie Lucido Johnson and Sammi Skolmoski - The New Yorker, November 19, 2025



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