

Pegasus



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

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Moral Capitalism At Work

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Pegasus

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INTRODUCTION

It is the current conventional wisdom that “capitalism is in crisis”. In this issue of February we affirm the point with an editorial by the Financial Times and remarks by UK Prime Minister David Cameron. An interview by Bill Moyers, once an aide to President Lyndon Johnson and more recently a commentator on American culture and politics, of David Stockman, once an aide to President Ronald Reagan, gives us a preview of Stockman’s new book on “crony capitalism” - an affliction of capitalism anywhere - in the United States. It presents further concern that the times as set in disorder by global capitalism’s recent financial meltdown are indeed “out of joint”.

Not surprisingly for readers of this newsletter, a remedy for what ails capitalism is offered by the Caux Round Table (CRT), which seeks practical ways to integrate virtue and values with more prosaic, hard-headed drivers of economic growth. That point is made by Robert MacGregor in his commentary. Bob was one of a small team which created the CRT’s 1994 Principles for Responsible Business.

The CRT remedy for today’s crisis of capitalism goes beyond what is offered by the UN Global Compact, the Global Reporting Initiative and ISO26000 in that the CRT principles provide standards and guidance at the very intersection of virtue and self-interest, to make manifest in businesses large and small that ideal of “self-interest understood upon the whole”. The CRT principles and vision of a moral capitalism are more than reporting of data (GRI), less than international treaties among nations (UN Global Compact), and ready for assessment, certification, and continuous improvement at every level of business endeavor.

Stephen B. Young
Global Executive Director

RULING CAPITALISM

*In January, the **Financial Times** published an important series of commentaries on “capitalism in crisis”. This editorial decision reflects the concern and anxiety in many places that we have yet to fully understand the optimal dynamics of free markets or, more precisely, to fully optimize the financial arrangements which promote sustainable economic growth with fairness in the distribution of outcomes. Upon the conclusion of the series of commentaries, the **Financial Times** offered its own opinion, which was to recall the insights of Adam Smith on moral sentiments. Thus, the **Financial Times** indirectly vindicated the recommendations for a moral capitalism which guide the Caux Round Table, as such recommendations flow in large measure from acceptance of Adam Smith’s insights as reflected in many cultural and religious traditions. The helpful **Financial Times** editorial follows.*

January 26, 2012

With a debate about “capitalism in crisis” in the *Financial Times*, it is timely for this newspaper to state its own view. The crisis flows from a lack of capitalism where capitalism was most needed. Solving the economic, political and intellectual challenges confronting the world must involve restoring capitalism to its rightful place. By capitalism, we mean well-regulated free enterprise economies – systems where resources are governed mostly by the responsible choices of private individuals, within ground rules that are clear, consistent and immune from bias in favour of any special interest. Such systems best secure freedom to control one’s life, offer opportunities to develop one’s talents, foster responsibility for one’s choices, and deliver the highest levels of material comfort in history. The excesses that drove the bubble and the breakdown that followed happened because leaders forgot that free enterprise requires rules. When some people benefit not from bringing useful products to market but stopping others from doing so; when some take risks from which they reap the gains but others face the losses; when many are deprived of opportunities to make their way in the job market – that is not capitalism but an economy captured by cliques. Good ground rules are a public good; as such they are the responsibility of states. Capitalism needs the state: not to run the economy but to regulate how individuals run it and have them face the consequences of their actions. Governments did not tend to this essential function – least of all in financial markets, where huge private debts were allowed to grow before being dumped on taxpayers. It is also wrong to let the rich pay less tax than the poor, as politicians are now beginning to realise. In a real free-market system people are enriched or ruined by risks they take with their own resources – not taxpayers’; nor by rules that favour them over others. Encouragingly, this is also at the heart of what many so-called anti-capitalists want, as Occupy London’s FT article on Thursday shows. The demands of most of the world’s indignants are better served by proper capitalism than by a revolution. Much is already being done to reform finance, despite resistance and backsliding. But laws and regulations are not all. Since Adam Smith, intelligent defenders of free markets have known that capitalism works best when people’s free choices are also governed by moral values. The cardinal virtue for capitalists is to support rules that make capitalism a success.



DAVID CAMERON CALLS FOR RESPONSIBLE CAPITALISM

*On January 19th, UK Prime Minister **David Cameron** called for a responsible capitalism as the preferred economic vision for his country, and by implication for all countries. His argument echoes in many important points the substance of the Caux Round Table's Principles for Responsible Business. An edited version of Prime Minister Cameron's remarks follows.*

These are difficult times. We have to deal with the legacy of the deficit and debt. The Eurozone is in deep and continuing trouble. Yesterday, unemployment rose again. And across Europe, economies have stalled. ... Today many people are questioning not just how and when we will recover, but the whole way our economy works. So while the economic challenge starts with dealing with our debts and achieving growth - it doesn't end there. We must aim higher than just coping with the storms affecting the international economy. Because I believe that out of this current adversity we can build a better economy, one that is truly fair and worthwhile.

And my argument today is this. We won't build a better economy by turning our back on the free market...we'll do it by making sure that the market is fair as well as free. While of course there is a role for government, for regulation and intervention... the real solution is more enterprise, competition and innovation.

FAIR MARKETS

In this debate about the kind of economy we want to see, my position is clear. I believe that open markets and free enterprise are the best imaginable force for improving human wealth and happiness. They are the engine of progress, generating the enterprise and innovation that lifts people out of poverty and gives people opportunity.

And I would go further: where they work properly, open markets and free enterprise can actually promote morality. Why? Because they create a direct link between contribution and reward; between effort and outcome. The fundamental basis of the market is the idea of something for something - an idea we need to encourage, not condemn.

So we should use this crisis of capitalism to improve markets, not undermine them. Conservatives in particular are well-placed to do this. Because we get the free market we know its failings as well as its strengths. No true Conservative has a naive belief that all politics has to do is step back and let capitalism rip. We know there is every difference in the world between a market that works and one that does not. Markets can fail. Uncontrolled glo-

balisation can slide into monopolisation, sweeping aside the small, the personal and the local.

But we are the party that understands how to make capitalism work; the party that has constantly defended our open economy against the economics of socialism. So where others see problems with markets as a chance to weaken them...I see problems with markets as an opportunity to improve them.

This reflects two principles that have always been at the heart of what I believe, and which have been at the centre of Conservative thinking for centuries. The first is a vision of social responsibility, which recognises that people are not just atomised individuals, and that companies have obligations too. And the second is a genuinely popular capitalism, which allows everyone to share in the success of the market.

SOCIAL RESPONSIBILITY

The idea of social responsibility is not a new departure for my party. It was Burke who insisted on public accountability for the East India Company, and William Pitt who brought it under the control of government. Later, the same spirit of responsibility helped drive the campaign against the slave traders. Under Peel it led to the repeal of the Corn Laws which had forced up the price of food. Under Disraeli, it led to the Factory Acts, which began to set working conditions.

Of course it's true that the great campaigns for reform drew strength from other movements too. But social responsibility - watching over business, correcting market failure, recognising obligations - that's been the Conservative mission from the start. ... Three years ago I argued that the previous government's turbo-capitalism turned a blind eye to corporate excess while we believed in responsible capitalism and would make it happen.

POPULAR CAPITALISM

But the second principle is just as important. As well as social responsibility we need to open up markets and get more people engaged in a genu-

inely popular capitalism. ... And three years ago in Davos I called for a new popular capitalism. One that recognised what's gone wrong with capitalism, and which freed people to make something of themselves...to get a good job. To own a home. To start a business.

Today this mission of improving markets, and ensuring they are fair as well as free...informed by the principles of social responsibility and genuinely popular capitalism... has three things at its heart. First, we need be clear about the very specific mistakes of the last decade. Second, we need to put the right rules and institutions in place to correct them. Third - and I think this matters far more than anything else - we need to open up opportunity and enterprise so that everyone has the capacity to participate and benefit.

WHAT WENT WRONG

The last government claimed to have got rid of boom and bust. What it really did was allow a debt-fuelled boom to get out of control. The truth is that the last government made a Faustian pact with the City. It encouraged a debt-crazed economy... because it needed to pay for spiraling welfare costs and a top-down, interventionist state. It tolerated market failures...because at heart it didn't really accept that markets could ever be made to work. It seemed frightened of challenging vested interests... believing the interests of big business were always the same as those of the economy.

All this left us with a level of public spending that we couldn't afford and a model of economic growth that doesn't work. I understand why this has made many people today disenchanted with markets - even angry. Because far from abolishing boom and bust, the previous government gave us the biggest boom and the biggest bust, leaving everyone with a share of the debt. But when things went well only a few seemed to get a share of the profit. Too many people found they couldn't count on their savings growing. They couldn't afford to buy a home. They worried about how they would pay their bills in old age.

And the City, which should have been a powerhouse of competition and creativity... became in-



Occupy London site at St. Paul's Cathedral

stead a byword for a sort of financial wizardry that left the taxpayer with all the risk, and a fortunate few with all of the rewards. So instead of popular capitalism we ended up with unpopular capitalism.

RISK AND REWARD

So the next question is: what needs to change? My answer is that we need to change the way the free market works - not stop the free market from working. We need to reconnect the principles of risk, hard work, and success with reward.

When people take risks, with their own ideas, energy and money... when they succeed in a competitive market where anyone can come and knock them off their perch at any time... we should celebrate entrepreneurs who get rich in that way.

We should support business leaders who earn great rewards for building great businesses...for doing great things for their company, for our economy and for society. There should be a proper, functioning market for talent at the top of business. And that will inevitably mean some people will earn great rewards. But that is a world away from what we've seen in recent years - where the bonus culture - particularly in the City - has got out of control. Where the link between risk, hard work, success and reward has been broken...

LESS REGULATION

... We're acting to make banks work for the people and firms who rely on them. This means implementing the Vickers report, to separate investment banking from retail banking. We will ensure banks are properly capitalized as losses should be borne by investors, not taxpayers. We're overhauling financial services regulation, abolishing the failed tripartite regime. We're fundamentally reviewing the Private Finance Initiative to strike a better balance between risk and reward to the private sector.

ENTERPRISE AND OPPORTUNITY

But the third part of our mission to improve markets and make them fair as well as free is about

enterprise and opportunity. Capitalism will never be genuinely popular unless there are genuine opportunities for everyone to participate and benefit. Of course this means a greater emphasis on equality of opportunity.

You can never create a fair economy if there are people who are automatically excluded from it through poor education...or encouraged to think that the only way to live their lives is to depend on state handouts.

People need the capacity to succeed. That's why this government has made an education revolution its priority...with academies, free schools, rigour in exams and a complete intolerance of failure. To build a fairer economy, we need more shareholders, more home-owners, and more entrepreneurs.

CONCLUSION

I want these difficult economic times to achieve more than just paying down the deficit and encouraging growth. I want them to lead to a socially responsible and genuinely popular capitalism. One in which the power of the market and the obligations of responsibility come together. One in which we improve the market by making it fair as well as free, and in which many more people get a stake in the economy and share in the rewards of success.

That's the vision of a better, more worthwhile economy that we're building. An economy where people who work hard get rewards which are fair in the true Conservative meaning of the word.

An economy where people feel in control of their destiny... because they've started their own business, or are shareholders in the company they work for, or are part of a co-operative.

An economy where everyone has the chance to build up assets and pass something on to the next generation. That is how we will make markets work for all of us...to spread wealth, freedom and opportunity.

CRONY CAPITALISM AMERICAN STYLE

The Caux Round Table has often pointed out the difficulties of achieving responsible business practices in an environment of crony capitalism. The rent-seeking that comes into play when privileged relationships are possible with government or other forms of non-market power can be exploited, it very often distorts personal values and leads to oppressive behaviors. Such values and behaviors are not consistent with the premises of ethics and moral responsibility. They are excessively self-interested, promote moral hazard, and externalize the losses and costs of enterprise to those without power and money.

*Recently journalist **Bill Moyers** interviewed **David Stockman**, for a time Budget Director for President Ronald Reagan, on his new book that highlights 'crony capitalism,' as he calls it, in America. Excerpts from that interview follow.*

January 20, 2012

BILL MOYERS Welcome. This week we're continuing our exploration of *Winner-Take-All Politics: How Washington Made the Rich Richer and Turned its Back on the Middle Class*. If you missed our first installment, you'll find it at our website, BillMoyers.com.

Now this is only the second broadcast of our new series, yet we've already made our choice for the best headline of the month. Here it is: "Citigroup Replaces JPMorgan as White House Chief of Staff." Behind that headline is a tangled web.

The new chief of staff is Jack Lew. He used to work for the giant banking conglomerate Citigroup. His predecessor as chief of staff is Bill Daley, who used to work at the giant banking conglomerate JPMorgan Chase. Daley was maestro of the bank's global lobbying and the chief liaison to the White House.

Bill Daley replaced Obama's first chief of staff, Rahm Emanuel, who once worked for a Wall Street firm where he was paid a reported \$18.5 million in less than three years. The new chief of staff, Jack Lew, comes from Obama's Office of Management and Budget, where he replaced Peter Orszag, who now works as vice chairman for global banking at the giant conglomerate Citigroup. Still following me?

It's startling the number of high-ranking Obama officials who have spun through the revolving door between the White House and the sacred halls of investment banking.

But remember, it was Bush and Cheney's cronies in big business who helped walk us right into the blast furnace of financial meltdown. Then they rushed to save the banks with taxpayer money.

But of course, Bush and Cheney aren't the only ones to have a soft spot for financiers. Bankers seem to come and go pretty frequently at the White House. President Obama may call them "fat cats" and stir the rabble against them with populist rhetoric when it serves his purpose, but after the fiscal fiasco, he allowed the culprits to escape virtually scot-free. And when he's here in New York, he dines with them frequently and eagerly accepts their big contributions.

Like his predecessors, Obama's administration has also provided the banks with billions of low-cost dollars they used for high-yielding investments to make big profits.

It's a fact. The largest banks are actually bigger than they were when he took office. And earned more in the first two-and-a-half years of his term than they did during the entire eight years of the Bush administration.

And get this: President Obama's new best friend, according to *The New York Times*, is Robert Wolf. They play golf, basketball, and they talk economics when Wolf is not raising money for the President's re-election campaign. Now, just who is Robert Wolf? Well, he's top dog at the U.S. branch of the giant Swiss bank UBS, the very bank that helped rich Americans evade taxes.

BM Quite a tangled web. One man who has strong views on all these cozy ties between Wall Street and Washington is David Stockman.

In the 1970s, he was a young Republican congressman from Michigan and an early proponent of supply-side economics -- some call it trickle down.

You know the theory; if you cut taxes on the wealthy, while cutting government, the economy will take off, money trickling down and creating millions of jobs.

It was the centerpiece of Ronald Reagan's 1980 campaign for president.

Once in the Oval Office, President Reagan made David Stockman his budget director.

DAVID STOCKMAN When President Reagan gave me this job he pointed to that budget which is some thousands and thousands of pages long, and he said go through it from top to bottom with a fine tooth comb and unless you can find a persuasive demonstration why funds must be spent, cut those budgets.

BM Stockman helped Reagan usher in the largest tax cut in U.S. history, a cut that mainly favored the rich. But things didn't go exactly as they planned them. The economy sagged, and in 1982

and '84, Reagan and Stockman agreed to tax increases.

In 1985 Stockman left government and wrote a book critical of his own years in power: *The Triumph of Politics: The Inside Story of the Reagan Revolution*. He then took his economic expertise to Wall Street and became an investment banker. Thirty years later, he's writing a new book, with the working title *The Triumph of Crony Capitalism*.

I sat down with him to talk about how politics and high finance have turned our economy into a private club for members only.

What do you mean by crony capitalism?

DS Crony capitalism is about the aggressive and proactive use of political resources, lobbying, campaign contributions, influence-peddling of one type or another to gain something from the governmental process that wouldn't otherwise be achievable in the market. And as the time has progressed over the last two or three decades, I think it's gotten much worse. Money dominates politics.

And as a result, we have neither capitalism nor democracy. We have some kind of crony capitalism, which is the worst. It's not a free market. There isn't risk taking in the sense that if you succeed, you keep your rewards, if you fail, you accept the consequences. Look what the bailout was in 2008.

There was clearly reckless, speculative behavior going on for years on Wall Street. And then when the consequence finally came, the Treasury stepped in and the Fed stepped in. Everything was bailed out and the game was restarted. And I think that was a huge mistake.

BM You write, quote, "During a few weeks in September and October 2008, American political democracy was fatally corrupted by a resounding display of expediency and raw power. Henceforth, the door would be wide open for the entire legion of Washington's K Street lobbies, reinforced by the campaign libations prodigiously dispensed by their affiliated political action committees, to relentlessly plunder the public purse." That's a pretty strong indictment.

DS Yeah and, but on the other hand, I think you would have to say it was fair. When you look at what came out of 2008, the only thing that came out of 2008 was a stabilization of these giant Wall Street banks. Nothing came out of 2008 that really helped Main Street. Nothing came out of 2008 that addressed our fundamental problems, that we've lost a huge swath of our middle class jobs. Nothing came out of 2008 that made financial discipline or fiscal discipline possible.

It was justified as sort of expediency. We need to do this. We need to stop the contagion. But it wasn't thought through as to what the long-term implications of this would be.

DS I think there was a lot of panic going on in the Treasury Department. I call it "The Blackberry Panic." They were all looking at their Blackberries, and could see the price of Goldman Sachs or Morgan Stanley dropping by the hour. And somehow they thought that was thermostat telling them that the economy was coming unraveled.

I don't believe that was right. I think what was going on was simply a huge correction that was overdue on Wall Street. The big leverage hedge funds on Wall Street that called themselves investment banks weren't really investment banks. They were just big trading operations using 30, 40 to one leverage. And it was that that was being corrected.

DS And then, the stock market dropped 600 points because all of the speculators on Wall Street all of a sudden began to think, "Hey, they might let capitalism work. They might let the rules of the free market function."

BM You mean by letting them fail. If they let them fail?

DS I think if they let them fail it wouldn't have spread to the rest of the economy. There wouldn't have been another version of the Great Depression. There weren't going to be runs on the bank. We weren't going to have consumers lined up in St. Louis and Des Moines and elsewhere worried about their bank. That's why we have deposit insurance, the FDIC. But it would have been a big lesson to the speculators that you're not going to be propped up and bailed out.

You're not going to have the Fed as your friend. You're not going to have the Treasury with a life-line. You're going to have to answer to the marketplace. And until we get that discipline back into our financial system, the banks are just going to continue to grow, continue to speculate and find new ways to make easy money at the expense of the system.

BM President Bush, he was still in office then.

DS Yes.

BM He said, I have to suspend the rules of the free market in order to save the free market.

DS You can't save free enterprise by suspending the rules just at the hour they're needed. The rules are needed when it comes time to take losses. Gains are easy for people to realize. They're easy for people to capture. It's the rules of the game that are most necessary when the losses have to occur because mistakes have been made, errors have been made, speculation has gone too far. The history has always been -- and this is why we had Glass-Steagall and a lot of the legislation in the 1930s.

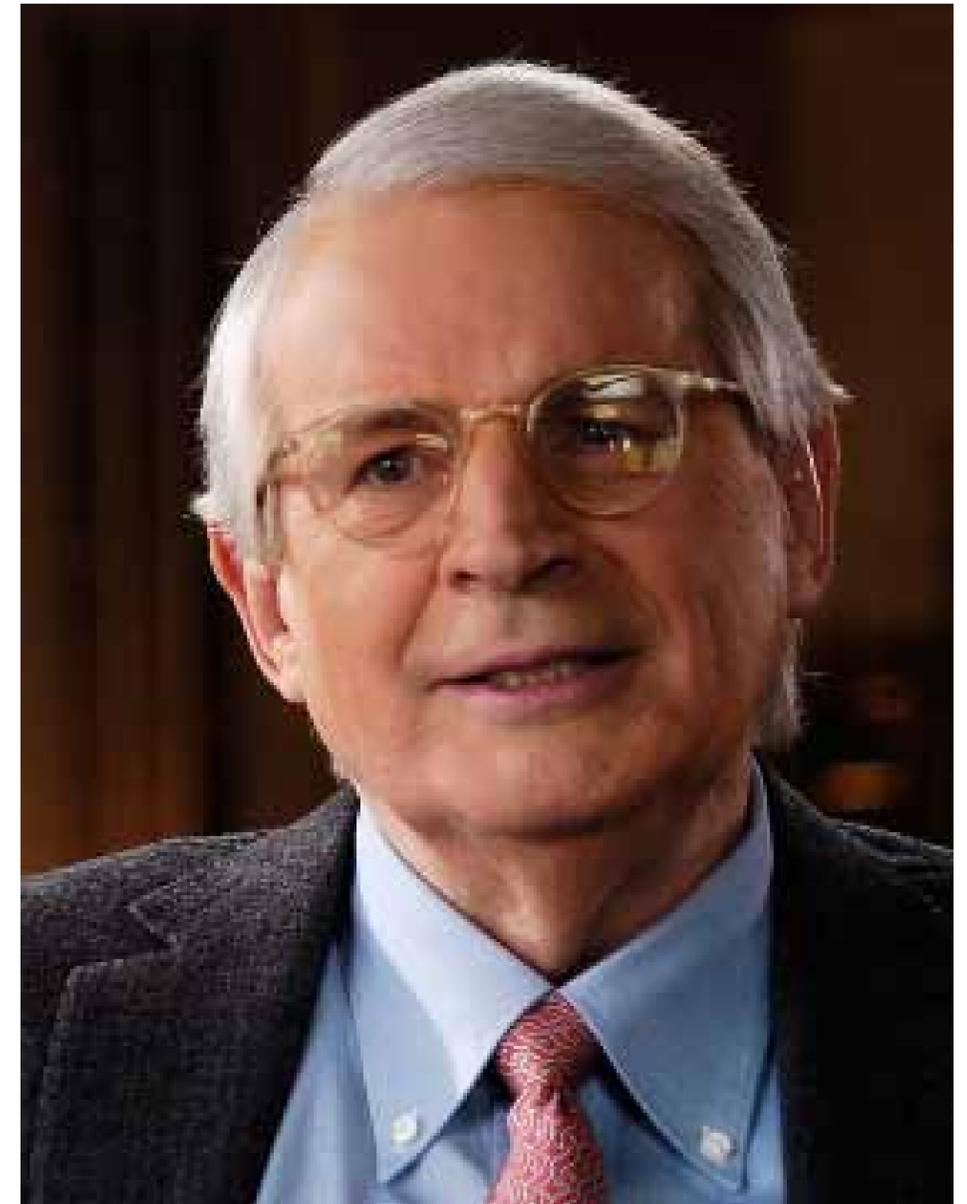
BM Glass-Steagall was the provision --

DS The division of banks between the commercial banking and investment banking and insurance and other --

BM So that you, the banker, could not take my deposits and gamble with them, right?

DS That's exactly right. And we need not only a reinstatement of Glass-Steagall, but even a more serious limitation on banks. And what I mean by that is, that if we want to have a way for, you know, average Americans to save money without taking big risks and not be worried about the failure of their banking institution, then there can be some narrow banks who do nothing except take deposits, make long-term loans or short-term loans of a standard, business variety without trading anything, without getting into all of these exotic derivative instruments, without putting huge leverage on their balance sheet.

And we need to say simply, that if you're a bank and you want to have deposit insurance, which ulti-



David Stockman

mately, you know, is backed up by the taxpayer -- if you're a bank and you want to have access to the so-called "discount window" of the Fed, the emergency lending, then you can't be in trading at all.

Now, on the other hand, if they want to be a hedge fund, then they've got to raise risk capital and they have to take the consequences of their risks, both to the good side and the bad side. And until we really approach that issue, and dismantle these giant, multi-trillion dollar balance sheet banks, and separate retail and deposit insured banking from just financial companies, we're going to have recurring bouts of what we had in 2008.

And they haven't even begun to address that, and it's so disappointing to see that the Obama administration, which in theory should've had more perspective on this than a Republican administration under Bush, to see that one, they appointed in the key positions the same people who brought the problem in: Geithner and Summers and all of those, and secondly, that Obama did nothing about it.

It could have easily -- they could have begun to dismantle a couple of these lame duck institutions, Citibank would have been a good place to start. But they did nothing. They passed Dodd-Frank, which said, now we're going to have everybody write regulations -- tens of thousands of pages that you know, it was a full employment act for accountants and lawyers and consultants and lobbyists. But they didn't go to the heart of the problem. If they're too big to fail, they're too big to exist. And let's start right with that proposition.

BM You've described what other people have called the financialization of the American economy, the growth in the size and the power of the financial industry. What does that term mean to you, financialization? And why should we care that it's happened?

DS Because what it means is that a massive amount of resources are being devoted, being allocated or being channeled into pure financial speculation that has no gain to society as a whole, has no real economic contribution to the process by which GNP is created, GDP is created and growth occurs. By 2007 40 percent of all the profits in the American economy were coming from finance companies.

40 percent. Historically it was 15 percent.

So the financialization means that as we attracted more and more resources and capital, and we made speculation easier and easier, and we funded it with almost free overnight money, managed and manipulated by the Fed, that's how the economy got financialized. But that is a casino. Casinos -- they're, you know, places for people to go if they want to speculate and wager. But they're not part of a healthy, constructive economy.

BM What do you mean by the free money that banks are using overnight?

DS Well, by that we mean when the Fed, the Federal Reserve sets the so-called federal funds rate at ten basis points, where it is today, that more or less guarantees banks can go into the Fed window, the discount window, and borrow at ten basis points.

And then you take that money and you buy a government bond that is yielding two percent or three percent. Or buy some corporate bonds that are yielding five percent. Or if you want to really get aggressive, buy some Australian dollars that have been going up. Or buy some cotton futures. And this is really what has been going on in our markets.

The cheap funding, which is guaranteed by the Fed, the investment of that cheap funding into speculative assets and then pocketing the spread. And you can make huge amounts of money as long as the music doesn't stop. And when the music stops then all of a sudden, the cheap, overnight money dries up. This is what's happening in Europe today. This is what happened in 2008.

And then people are stuck with all these risky assets, and they can't fund them. They owe cash to the people they borrowed overnight from or on a weekly basis. That's what creates the so-called contagion. That's what creates the downward spiral. Now, unless we let those burn out, it'll be done over and over. In other words, if, you know, if a lesson isn't learned, then the error will be repeated over and over.

BM You name names in your writing. You identify several people as the embodiment of crony

capitalism. Tell me about Jeffrey Immelt.

DS He is the poster boy for crony capitalism. Here is GE, one of the six triple-A companies left in the United States, a massive, half-trillion dollar company, massive market capitalization. I'm talking about the eve of the crisis now, in September, 2008.

Suddenly, when the commercial paper market starts to destabilize and short-term rates went up. He calls up the Treasury secretary with an S.O.S., "I'm in trouble here. I need a lifeline." He had recklessly funded a lot of assets at General Electric Capital in the overnight commercial paper market. And suddenly needed a bailout from the Treasury. Within days, that bailout was granted.

And therefore, General Electric was able to avoid the consequence of its foolish lend long and borrow short policy. What they should have been required to do when the commercial paper market dried up -- that was the excuse. They should've been required to offer equity, sell stock at a highly discounted rate, dilute their shareholders, and raise the cash they need to pay off their commercial paper.

That would've been the capitalist way. That would've been the free market way of doing things. And in the future they would've been less likely to go back into this speculative mode of borrowing short and lending long. But when we get to the point where the one triple-A, a multi-hundred billion dollar company gets to call up the Secretary, issue the S.O.S. sign and get \$60 billion worth of guaranteed Federal Reserve and Treasury backup lines, then we are, you know, our system has been totally transformed. It is not a free market system. It is a system run by powerful, political and corporate forces.

BM So when you saw that President Obama had appointed Jeffrey Immelt, as the head of his Council on Jobs and Competitiveness, what went through your mind?

DS Well, I was in the middle of being very disgusted with what my own Republican Party had done and what Bush had done and the Paulson Treasury. And then when I saw this, I got the title for my book, "The Triumph of Crony Capitalism."

BM So this is what you mean, when you say free markets are not free. They've been bought and paid for by large financial institutions.

DS Right. I don't think it's entirely a corruption of human nature. People have always been inconsistent and greedy.

But I think it's been the evolution of the political culture in which there have been so many bailouts, there has been so much abuse and misuse of government power for private ends and private gains, that now we have an entitled class in this country that is far worse than you know, remember the welfare queens that Ronald Reagan used to talk about?

We now have an entitled class of Wall Street financiers and of corporate CEOs who believe the government is there to do whatever is necessary if it involves tax relief, tax incentives, tax cuts, loan guarantees, Federal Reserve market intervention and stabilization. Whatever it takes in order to keep the game going and their stock price moving upward. That's where they are.

BM But on the basis of the record, the lessons of the past. The experience you have just recounted and are writing about. Do you see any early signs that we might turn the ship from the iceberg?

DS No. I think we've learned no lessons. We really have not restructured our financial system. The big banks that existed then that were too big to fail are even bigger now. The top six banks then had seven trillion of assets, now they have nine or ten trillion.

Rather than go to the fundamentals which have been totally neglected-- we've simply kind of papered over the current system and continued the game of having the Federal Reserve and the Treasury if necessary prop up all of this leverage and speculation, which isn't helping the economy.

And I think it's important to put the word crony capitalism on there. Because free-market capitalism is a different thing. True free-market capitalists never go to Washington with their hand out. True free-market capitalists running a bank do not expect that every time they make a foolish mistake or they get themselves too leveraged or they end



up with too many risky assets that don't work out, they don't expect to go to the Federal Reserve and get some cheap or free money and go on as before.

They expect consequences, maybe even failure of their firm, certainly loss of their bonuses, maybe the loss of their jobs. So we don't have free-market capitalism left in this country anymore. We have everyone believing that if they can hire the right lobbyist, raise enough political action committee money, spend enough time prowling the halls of the Senate and the House and the office buildings, arguing for their parochial narrow interest -- then that is the way that will work out. And that is crony capitalism. It's very dangerous and it seems to be becoming more embedded in our system.

BM So many people say, "We've got to get money out of politics." Or as you said, "Money dominates government today."

DS Well look, I think the financial industry, over the two or three year run up to 2010 spent something like \$600 million. Just the financial industry -- the banks, the Wall Street houses and some hedge funds and others. Insurance companies. \$600 million in campaign contributions or lobbying.

That is so disproportionate, because the average American today is struggling to make ends meet. Probably working extra hours in order, just to keep up with the cost of living, which is being driven up unfortunately by the Fed.

They don't have time to weigh into the political equation against the daily, hourly lobbying and pressuring and you know, influencing of the process. So it's asymmetrical. And how do we solve that? I think we can only solve it by -- and it'll take a constitutional amendment, so I don't say this lightly. But I think we have to eliminate all contributions above \$100 and get corporations out of politics entirely.

Ban corporations from campaign contributions or attempting to influence elections. Now, I know that runs into current free speech. So the only way around it is a constitutional amendment to cleanse our political system on a one-time basis from this enormously corrupting influence that has built up.

And I think nothing is really going to change until we get money out of politics and do some radical things to change the way elections are financed and the way the process is influenced by organized money. If we don't address that, then crony capitalism is here for the duration.

BM David Stockman, thank you very much for sharing this time with us.

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CAUX ROUND TABLE ITS VITAL FUTURE

Robert MacGregor, with years of experience in chambers of commerce and other business organizations, initiated with several other Minnesotans the effort to draft the Caux Round Table Principles for Responsible Business. Recently he wrote this comment on how ethics of responsibility are both needed by capitalism and can be achieved by forthright and high-minded executives.

The case can and should be made that the Caux Round Table's ("CRT") aspiration of principled business leadership, and its worldwide mission for ethical and responsible corporate behavior are really the most important messages that proponents of Free Market Capitalism should hear and implement.

At a recent discussion over coffee after a church service, I was discussing with Bill Ogden who has attended CRT meetings. The subject: Capitalism in Crisis. After arriving home from church, I turned on CNN and there was Fareed Zakaria saying "Capitalism is in Crisis".

The *Financial Times* recently ran a two week series of articles on Capitalism in Crisis, offering many scholars, journalists and business people to wax eloquently on the problems and solutions. A late January issue of *The Economist* featured a fifteen-page story on "The Crisis of Western Liberal Capitalism vs. The Rise of State Capitalism".

At the recent Davos *World Economic Forum*, a gathering of the world's big shots, the founder Klaus Schwab said, "Capitalism in its current form no longer fits the world around us." And Davos featured sessions on the Chinese model for State Capitalism. I clipped a lead article out of a Nairobi, Kenya newspaper, "Capitalism Has Failed", and the author recommended a return to Marxism.

Young people are protesting all over the world including on Wall Street. They are angry about not having a job or a bright future. Much of the anger is also addressed against Capitalism - the way they see it practiced.

Andy Stern of the largest and most important government union, The Service Employees Union, says he's a Socialist and criticizes the failures of Capitalism. He recently wrote an opinion piece in *The Wall Street Journal*, making the case for State-run Capitalism - China's Communist variety - as the best system.

Some of the criticism and anger are well placed. When Goldman Sachs and other finance firms sell a package of investments to a Pension Fund, brag about pedaling junk, and then vote against the package to make big bucks, this is a big turnoff on



Capitalism.

The recent criminal charges against Rajat Gupta, the former CEO of the stellar consulting firm McKinsey & Co., including insider trading, add to the war chest of the anti-Wall Street movement.

Also, too many Harvard Business School graduates who are well-trained in management skills, believe the purpose of business is to make them rich. Some call this philosophy as greed. Even after Dodd-Frank business regulation bill passed in Congress, we read about the MF Global Co. failure, and its chairman Jon Corzine's bankruptcy with \$1.2 billion missing. People can rightfully question Capitalism.

Many are blaming Capitalism as practiced today for the Global Financial Crisis, and they are partially correct. Too many business people have shot themselves in the foot.

However, there is another side to this crisis. Even David Brooks, writing on Fannie Mae and Freddie Mac – two huge, American para-statal enterprises making loans for home purchases – makes the case that they are responsible for the “Greatest Crisis Since Watergate.” There are those who blame it on the affordable housing push that began in the Clinton administration, promising housing to low income voters. This in turn set up government programs that in effect demanded banks offer adjustable loans with little or no down payment. Banks were punished if they didn't comply. Fannie and Freddie guaranteed 90% of the home loans. This has proven to be unsustainable and wrongheaded, and played a large role in the financial mess confronting global finance.

Capitalism isn't the problem. Ideology is the problem.

The Economist featured story on State Capitalism mentioned earlier didn't conclude by supporting it. They pointed out many glaring problems of this state-controlled philosophy, especially China's corruption and, cronyism.

The *Wall Street Journal* also reminded us, “it is most efficient for the Chinese to steal innovations and intellectual property than to incur the cost and

time of creating their own.”

Where I come out on the subject places blame around the horn. Capitalist business people as well as too many government leaders failed society. Our leaders had a Values Crisis.

I learned something about proper Capitalism in school studying Adam Smith. But more importantly I saw it, and had the distinct privilege to work with business leaders who understand this and did their best to walk the talk. They made believers out of us.

I'm still a free market capitalist believer, shaped and framed by the CEO's with whom I've had the privilege of working in my long career. They had flaws (as we all do). Yet they had good core values. I'm thinking of business leaders I have worked with in Minnesota over the years - Win Wallin and Bill George of Medtronic, Dave Koch of Graco, Chuck Denny of ADC, Elmer Andersen of H.B. Fuller, Dick McFarland of RBC, Marilyn Carlson Nelson of Carlson Companies, Jim Campbell of Wells Fargo and others. Many were underpinned by their religious faith. I think of Jim Renier, former Chairman of Honeywell, a devout Catholic and Chairman of the Minnesota Center for Corporate Responsibility, and his strong commitment for young people, as well as at-risk young women.

As I look back, one giant that stands out is Mervyn King, a Jewish leader who worked tirelessly against South Africa apartheid. He was Chairman of the Frame Group, a leading global textile firm who helped me in my project in South Africa to equip black leaders to be successful in business.

Also Jewish leaders with whom I've had the privilege to work with – Henry Bloch in Kansas City and Ben Heineman in Chicago.

What a privilege to be hired by George Frem, the founder of the successful Lebanese packing firm and a devout Maronite Catholic who walked the talk of his religion.

Chuck Battey, President of Sprint and the Kansas City Chamber was a driven person who used his corporate position to serve society. We went to the same church.

I think of my Chicago United Chairman, Jim Bere, Chairman of Borg Warner and a strong Evangelical Christian. He was driven to be a servant.

I recall Stan Enlund, Chairman of First Federal and the Chicago Chamber, a devout Lutheran.

What a privilege to have Bill Dunn, a successful developer and Gil Bourk, a banker, head of the Kansas City Chamber. They put into practice their Catholic faith as leaders of the community.

What a privilege to work for old time Capitalists who talked of their responsibility to do more for the community in Chicago, such as Art Wood, Chairman of Sears, and the top business leader of Chicago; Tom Brooker, Chairman of Montgomery Ward, plus many other champions.

But high on the list of course, the privilege of working with Joe Hudson of J.L. Hudson and for Bruce and Ken Dayton, who spelled out what Capitalism is all about: **“The purpose of business is to serve society. Profit is our reward for serving well with integrity.”**

George Draper Dayton (founder of retail firm Dayton's, which is now Target) said years ago at a Macalester College Commencement speech, “Success: By Contribution Not Acquisition.”

In a speech to the Minneapolis YMCA in 1924, he said: *“Character stands out as pre-eminently the most valuable thing one can seek for, strive for, struggle for, in this life. It does not come by chance, it develops slowly and can be easily undermined or wrecked.” He used the words, “One is governed by honesty, truthfulness – generous in his judgments of others.”*

I took this Minnesota tradition to Caux to meet with business leaders from Japan and Europe. Chairman Kaku of Canon who brought his enlightened and compatible Kyosei Principles: “Working and living together in harmony for the common good.” Jean-Loup Dherse of France insisted on business respect for human dignity. Together we developed the Global Caux Round Table Principles for Business, which we believe are now the most widely circulated business principles in the world.

I began by mentioning *The Economist* magazine, and the series of articles in the *Financial Times* on fixing Capitalism. The *Financial Times* wrote a final editorial saying: “This is our answer to restoring Capitalism. By Capitalism we mean where resources are governed mostly by the responsible choices of private individuals.” They elevated values front and center, and ended by referring to Adam Smith, “Capitalism works best when people have free choice and are governed by moral values.” These are the cardinal virtues for Capitalists.

Capitalism has not failed, flawed people have failed. Values and ethics disappeared from U.S. classrooms in the late 60's – the decade that gave us our leaders today. The best and brightest (ex: Enron) didn't have core values of knowing right and wrong.

The other day someone reminded me of a CEO of a large firm, who relied on his legal department, as many have to do in the present litigious environment. His attorney would begin the conversation: “How do you want me to handle this case?” The CEO responded: “Do what is right.” Each time the attorney approached him with the question, the answer was always “Do what is right”. That is what the CRT Principles are about. It's doing what is right!



MONEY AND ETHICAL DYSFUNCTION ESPECIALLY IN POLITICS

Stephen B. Young
Global Executive Director

The current presidential election cycle in the United States has brought to the forefront of concern and comment the role of money in American politics. It seems with the ever accelerating decline of political parties as vehicles for mobilization of voters and political opinion, money is stepping in to the vacuum so that special interests and ideological sub-cultures gain more and more influence over who gets elected.

The authorization of Super-Political Action Committees by an opinion of the U.S. Supreme Court has brought millionaires into the political fray so that a few may achieve disproportionate media presence and so influence public choices by spending a lot of money on their favorite candidates and causes. In the worlds of Occupy Wall Street, it's the 1% lording it over the 99% in shaping political outcomes.

As they say: "money talks" and big money talks loudest of all.

Mitt Romney's supporters have used such super-PAC money to effectively campaign negatively against a series of more socially conservative opponents. Newt Gingrich has an "angel" who funds his presidential campaign. President Obama has decided to go the super-PAC route and raise perhaps as much as a billion dollars to gain re-election. It has been estimated that this year, 2012, Americans will spend up to 6 billion dollars in all their elections.

Ordinary citizens are being priced out of local political competition as the costs of campaigning rise and rise, mostly for television ads and the experts who fine tune their emotional appeal. Parties, which provided the mechanism for compromise and coalition building for nearly two centuries, are becoming anachronisms so that gridlock and recalcitrance have come to dominate policy making.

Is it just American politics in a new, post-industrial, form, or does money have an existential aspect that always breeds dysfunction?

The early Christian apostle, Saint Paul, famously wrote that the "love" of money is the root of all evil. Mencius spoke only of humane actions and right conduct, not of profitable gains. Qur'an instructs

that God does not favor those who are avaricious and stingy.

So, in business and politics: is it our love for money that causes excess and oppression or is it something about money itself?

Money has long been associated with self-seeking, short-sightedness, unethical imposition of risk and loss on others, and immoral behavior. In business, the complaint seems to be universal and eternal: chasing gain that becomes cash in the hand gives rise to bias and distortion in judgment. In politics, money is associated with corruption, abuse of power, favoritism, despotism, and the undermining of idealism and the common good.

In the movie, *The Godfather*, Don Vito Corleone made the trenchant proposition that applies to business, politics, and life in general: when we want something badly enough, make them an offer they can't refuse. Apply pressure on the emotions: stoke fear or harness greed.

Money plays to greed and money can engage with our fears to make us more secure if we have it or more fearful if we lose it. Money is a big deal in human affairs. It gets into our souls.

Money becomes an instrument of power because we do love what it can do for us. Money is a very effective and efficient form of power. Its reach in our hands is wide indeed. We can use it to buy many things and play on many emotions and desires. It is readily at hand and convenient to exchange for goods and services. It gives us control and draws people to us.

Power has always been problematic in politics and governance. It needs restraint and a bridle if it is not to destabilize our life together. Unchecked, it breeds conflict and abuse and fear. Lord Acton has been widely applauded for the depth of his insight that "power tends to corrupt and absolute power corrupts absolutely."

Ethical systems of politics and governance seek to moralize power but turning it into stewardship or some similar form of service to the common weal. Putting checks on power is the essence of constitutionalism. This ethical ideal is at the core of the

CRT Principles for Government.

But money has its own magnetism that side-steps and out-maneuvers legal provisions for checks and balances. Money goes to the heart of ambition and self-assertion. It empowers us as few things can do. With money, we become more influential, less vulnerable, more attractive to others who too seek a share of power for themselves. Lots of money gives us a charisma, just as possession of any great source of power does.

Thus money politics is a danger to the common good everywhere.

But money, like every other form of private property, provides each of us with stature and significance. Our voice becomes more influential if we can support our words with deeds and make our preferences effectual for others. To deny us access to money in politics subordinates us to the will of others. Our human dignity would be hard to come by if we had no means of taking action. Spending money is an extension of our personality, our will, our morality into the world around us.

So here is the conundrum: how can we square a circle? How can we use money to promote the good within us out of respect for our individual dignity but not have it promote what is dysfunctional and invidious to the common good, from which we stand to benefit as well?

In the United States we may need to amend the Constitution so that we can still spend money in politics, but under some constraints that would provide fitting checks and balances.

Max Frankel, a former editor of the *The New York Times*, has just proposed in the *New York Review of Books* that money spent for political advertising be put into competitive harness: double the price of campaign commercials and give half the money to an opponent for free airtime. Frankel suggests that such a rule would turn campaigns cautious in spending their money. They would think twice before making a big buy of TV time as they would be spending money to put opposing thoughts and emotions out before the public. They would shift to less expensive and more time-consuming ways of influencing voter attitudes and behaviors.

Frankel's idea has its drawbacks – fringe and hateful candidates (consider a Hitler) would be given exposure they otherwise might not be able to afford. But a response from Frankel might point out that error can be tolerated where freedom of speech is robust to contest it. If enough money is made available for many points of view, competition in ideas and emotions would level all opinions to some common denominator sustained by sound facts and decent ethics. The analogy would be to a free market in goods and services which, over time, drives out substandard offerings, fraud, and negligence.

Money is not going away, either in economics or politics; and human nature is not going to change. The challenge of balancing power with restraint, therefore, will also remain before us.