

Leadership

A Journey Toward World Peace

Volume 3

**Our Leadership Transforms the
Political Economy, Promoting
Economic Growth, Social Justice,
Social Integration and Social Harmony**

Juan Pablo Stegmann Ph.D.

**En Route Books and Media, LLC
Saint Louis, MO**

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Make the time

En Route Books and Media, LLC
5705 Rhodes Avenue
St. Louis, MO 63109

Contact us at contact@enroutebooksandmedia.com

Cover Credit: “Horizons,” a masterpiece of Francisco Antonio Cano,
a Colombian painter

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ISBN-13: 979-8-88870-001-3

Library of Congress Control Number: 2022949323

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in a retrieval system, or transmitted in any form, or by any means,
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written permission of the author.

This beautiful painting on the cover of this series is called “Horizons,” a masterpiece of Francisco Antonio Cano, a Colombian painter. It summarizes the journey proposed by this book as the family are migrants journeying toward a better future. Their journey is the result of their spirituality, greatness and leadership.

The painting reflects wisdom: with a contemplative attitude, in silence, building consciousness. It reflects transcendence: they appreciate beauty, goodness, and truth, a life journey, walking toward love; they are builders of transcendence, creators of beauty, goodness, and truth: his finger pointing at the sky resembles God’s creation of Adam in Michelangelo’s Sistine Chapel. It reflects that they have transcendence, higher-level values: his right-hand holds an ax, a symbol of a worker. It reflects religiosity: they resemble the Holy Family in their journey to Egypt; they reflect the loving presence of God; they are building a relationship with God in their striving for a better life, a better world. It reflects relationships: their family is a community of love. It reflects having a meaning in life: they accept sacrifices, suffering, and efforts toward an ideal. It reflects discernment: they meditate and ponder, integrating all the dimensions of life before deciding on the next step. It reflects transformation: they are journeying to create a new life, new communities, a new vocation, a new home. It reflects social action: a couple caring for their family and community.

The painting reflects their leadership: they have a vision of the future of society, promoting transcendence, beauty, goodness, and truth; they have a mission, values, purpose, identity, commitment, and role in society; they reflect relationships, a small community, marching to join a larger community that shares their vision and mission; they are making meaningful decisions, based on discernment; they are transforming, executing social actions.

This painting is located at the Museo de Antioquía in Medellín, Colombia.

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INTRODUCTION

The first purpose of this third volume is to show how our leadership provides resources that promote Edvinsson's National Intellectual Capital, human, market, process, and renewal capital that benefit the political economy of nations, promoting economic growth and social justice.

The second purpose is to show how our leadership relies on a realist epistemology that promotes social harmony, reducing the social fragmentation generated by the confrontations between the right and the left, which rely on individualist and collectivist cultural values, which are based on empiricist and subjective idealist epistemologies.

World peace results from a leadership culture promoting economic growth and social justice. World peace results from a realist epistemology that can dialogue with all epistemologies, building better knowledge, stronger relationships, promoting social integration, smoothing and harmonizing tensions between right and left, between different sectors of society, promoting social cooperation, subsidiarity and solidarity, promoting the common good, strengthening democratic institutions, reducing populism and social fragmentation.

This volume promotes a new agenda: the solution to the problems of modern political economy must be based on reinforcing a leadership culture that promotes economic growth and social justice, organizational success, and social well-being, reduces the confrontation between individualism versus collectivism, the right versus the left, and promotes world peace.

A leadership culture provides resources that maximize National Intellectual Capital, promoting economic growth and social justice

A leadership culture provides resources that maximize human, social, process, and renewal capital, maximizing economic growth and social justice.

Leaders provide human capital: better organizational knowledge, richer perceptions, stronger connections, better communications, trust, knowledge sharing, creativity, entrepreneurship, values, motivation, interdisciplinary science, education, health, and life expectancy.

Leaders provide social capital: building relationships with reciprocity and goodwill; supporting democratic institutions, rule of law, order; reinforcing social behaviors, civic and political freedoms, internationality; supporting a culture of collaboration and trust, shared values, a shared sense of civic responsibility, shared social norms, sense of community, altruism, and emotional support; defending democratic principles of dignity, equality and mutual respect of men; promoting education for all, employment for all, promoting a culture of justice, liberty, cooperation, solidarity, dialogue and peace; reducing populism and social fragmentation; promoting entrepreneurship and frugality, positive attitudes toward hard work, welfare; promoting ethics, reducing transaction costs, minimizing the agency problem; reducing information asymmetry, lowering information cost, law enforcement costs, costs as a result of bribery and corruption, cost of transformation, raising the return on investment which leads to promoting investment, social entrepreneurship, social innovation, social change, business opportunities, trade intensity, welcoming investors.

Leaders provide process capital and renewal capital, higher values, the power to perform personal and social transformations, and social actions.

A leadership culture relies on a realist epistemology, which reduces the division generated by the confrontation between the right and the left

This volume defends the unquestionable success of modern democracies and capitalism but shows two realities that invite reflection.

The first reality is that some sectors of society have doubts about capitalism, and some choose populist governments worldwide, which weaken democratic institutions.

The second reality is that the political economies of the right and the left have benefits and limitations, which invites us to reconsider the cultural values that support both views, individualism and collectivism, which rely on two epistemologies that have strengths and weaknesses, empiricism and subjective idealism. Individualism and collectivism, the right and left, have fragile epistemological foundations that lead some politicians to defend radical views, providing fragmented knowledge, incomplete information, sacrificing the truth, promoting divisions, a chasm that divides society, leading to continuous conflicts.

This reduces human capital, impoverishes common knowledge and health; this reduces social capital, reducing confidence in the democratic system, generating lack of credibility, promoting populism, impacting negatively on democratic institutions; this reduces the capital of renewal and process, leading to the situation of countries like Cuba, Venezuela and Argentina where the lack of work ethic of the sectors that depend on the state impoverishes the whole nation.

As volume 2 discusses, a leadership culture is based on a realist epistemology. A realistic epistemology promotes organizational knowledge and relationships, dialogue, leading to common truths.

A realist epistemology solves cultural opposites' limitations and confrontations: individualism versus collectivism, high versus low power-distance, masculinity versus femininity, and high versus low uncertainty avoidance.

A realist epistemology helps to eliminate the social fragmentation empowered by social media and to reduce the fragmentation generated by cultural populism.

Toward world peace

World peace results from a leadership culture impacting the political economy, providing resources that promote human, social, renewal and process capital, an engine of economic growth and social justice.

World peace results from a leadership culture that promotes the enjoyment and creation of goodness, beauty and truth, it promotes higher values such as humanism, justice, law, it promotes relationships and communities, it provides meanings to our lives, discernment, transformation, healing, social action and social change, throughout society.

World peace results from a realist epistemology that promotes human capital, common knowledge, that promotes social capital, stronger relationships, promoting social integration, reducing tensions between individualism and collectivism, right and left, between different sectors of society, promoting social cooperation, subsidiarity and solidarity, the common good, strengthening democratic institutions, reducing populism and social fragmentation, and leading to world peace.

World peace results from social capital generated by social harmony, economic interdependence, cultural interdependence and environmental interdependence.

I. ECONOMIC GROWTH IS BASED ON RESOURCES

Introduction

The purpose of this chapter is to present a summary of current political economy thinking, showing the centrality of resources to promote economic growth.

Several theories explain how economic growth is resource-based. Modern political economy proposes two critical resources to foster economic growth: human capital and social capital.

Leif Edvinsson's National Intellectual Capital model (NIC) incorporates two additional resources: renewal capital and process capital, and measures the NIC in several nations.

The neoclassical theory of growth and the centrality of technological and human resources (exogenous growth)

Robert Solow (Massachusetts Institute of Technology), Nobel Laureate in Economics in 1987, published a seminal paper on economic growth and development: "A Contribution to the Theory of Economic Growth". His paper explores how economic growth is based on factors external to the system: technology, human capital, financial capital, and means of production.

The Solow model connects a set of variables to explain how a country's output can grow steadily. Charles Jones and Dietrich Vollrath¹ explain that the result, economic prosperity, is resource-dependent: labor (labor productivity is necessary to ensure economic

¹ The following equation presented by Charles Jones and Dietrich Vollrath summarizes that approach:

$$Y = F(K, AL) = K^a (AL)^{1-a}$$

Y: production

K: capital (endogenous)

A: technology (exogenous)

growth) and capital (a high savings rate is required to ensure capital accumulation) are endogenous, and technology (technological progress is a critical factor in ensuring economic growth) is exogenous.

Gregory Mankiw, David Romer, and David Weil, in a later paper: "A Contribution to the Empirics of Economic Growth", show that the model needs to include human capital and skilled labor as critical resources. Jones and Vollrath² explain that human capital, expressed in labor skills, plays a crucial role in explaining worker productivity and impacting economic growth.

New growth theory and human capital (endogenous growth)

Neoclassical growth theory does not explain how technological and human capital grow: the new growth theory explains it. According to Paul Romer³, technology and human skills grow driven by

L: labor (endogenous)

a: parameter between 0 and 1

Jones, Charles I.; Vollrath, Dietrich. *Economic Growth*. W. W. Norton & Company. New York, London. 2013. p. 36.

² The following equation presented by Charles Jones and Dietrich Vollrath summarizes that approach:

$$y^*(t) = (sK / n + g + d)^{a / 1-a} hA(t)$$

$y^*(t)$: output/technology ratio per worker

sK : the physical capital investment rate

g : rate of technological progress

h : labor skills

Jones, Charles I.; Vollrath, Dietrich. *Economic Growth*. W. W. Norton & Company. New York, London. 2013. p. 57.

³ Romer, Paul M. Increasing Returns and Long-Run Growth. *Journal of Political Economy* 94 (October 1986): 1002-37.

Endogenous Technological Change. *Journal of Political Economy* 98 (October 1990): S71-S102.

The Origins of Endogenous Growth. *Journal of Economic Perspectives* 8 (Winter 1994): 3-22.

knowledge. Jones and Vollrath⁴ explain that economic growth requires capital, skilled labor, and knowledge/ideas. This makes technology an endogenous factor: technology results from research and new ideas created by individuals to foster economic prosperity.

Knowledge has several benefits.

It can generate increasing returns because each new production unit does not require relevant costs, or their costs can be zero. For example, once a piece of music or software has been created, it can be stored on a CD at a low cost and sold at a high price, generating increasing returns.

Knowledge can generate positive externalities, as other organizations can benefit from its creation without investing in it. For example, once smartphones were created, several companies could sell their applications based on them.

Knowledge can grow with population growth and education: the more educated people there are in a country, the greater the chances of having a more significant knowledge production.

All these factors have a positive impact on a country's economic growth.

Growth theory and social capital (endogenous growth)

Mancur Olson introduced the role of institutions as a critical factor in the economic success of countries:

⁴ The following equation presented by Charles Jones and Dietrich Vollrath summarizes that approach:

$$Y = K^a (A L)^{1-a}$$

Y: production

K: capital

L: work

A: knowledge, ideas

Jones, Charles I.; Vollrath, Dietrich. *Economic Growth*. W. W. Norton & Company. New York, London. 2013. p. 99.

The South Korean case certainly supports the long-known hypothesis that the world's productive knowledge is, for the most part, available to poor countries, and even at relatively modest cost. It would be very difficult to explain much of the differences in per capita income between countries in terms of differential access to the stock of available productive knowledge.⁵

Given that neither differences in the endowments of any of the three classical aggregate factors of production nor differential access to technology explain much of the large variation in per capita income, we are left with the second of the two (admittedly highly aggregated) possibilities outlined above: that the most important explanation of income differences between countries is the difference in their economic policies and institutions.⁶

The structure of incentives depends not only on the economic policies chosen in each period, but also on long-term or institutional arrangements: on legal systems that enforce contracts and protect property rights and on political structures, constitutional provisions, and the scope of special interest lobbies and cartels.⁷

Sometimes deficiencies in the economic policies and institutions of poor countries make foreign investors and foreign firms unwelcome, or cause the flight of locally owned capital, or make lending to these countries excessively risky. If a country's institutional and political deficiencies prevent capital from having the productivity appropriate to its scarcity or discourage investment and lending that would equalize the marginal product of capital in all countries, they prevent capital from reaching its potential.⁸

If Coase-style spontaneous negotiations, whether through *laissez faire* or political bargaining and government, eliminated socially

⁵ Olson, Mancur. Big Bills Left on the Sidewalk: Why Some Nations Are Rich and Others Poor. Distinguished Lecture on Economics in Government. *Journal of Economic Perspectives*. Volume 10, Number 2. Spring 1996. p. 8.

⁶ Ibid. p. 7.

⁷ Ibid. p. 6.

⁸ Ibid. p. 15.

profligate predation and obtained the institutions necessary for a prosperous market economy, then there would not be so many grossly inefficient and poverty-stricken societies.⁹

As Jones and Vollrath¹⁰ state, the quality of the social infrastructure of institutions is a critical resource. They conclude:

The social infrastructure of an economy—the rules and regulations and the institutions that enforce them—is a primary determinant of the extent to which individuals are willing to make the long-term investments in capital, skills, and technology that are associated with long-term economic success. Economies in which the government provides an environment that encourages production are extremely dynamic and successful. Those in which the government abuses its authority to engage in and enable diversion are correspondingly less successful.

Implicit in this theory of long-term economic performance is a theory that addresses the question of "growth miracles". How is it possible that countries like Singapore, Hong Kong and Japan can go from being relatively poor to relatively rich in a period of time as short as forty years? Similarly, how is it that an economy like Argentina or Venezuela can make the reverse movement?

This theory suggests that the answer lies in basic changes in the social infrastructure of the economy: changes in the government

⁹ Ibid. p. 23.

¹⁰ The following equation presented by Charles Jones and Dietrich Vollrath summarizes that approach:

$$Y = I^{Ka} (h L)^{1-a}$$

Y: output

I: quality of social institutions

K: financial capital

h: human capital

L: labor

Jones, Charles I.; Vollrath, Dietrich. *Economic Growth*. W. W. Norton & Company. New York, London. 2013. p. 168.

policies and institutions that shape the economic environment of these economies.¹¹

Patrick Vanhoudt and Luca Onorante¹² show that to increase labor productivity, four resources need to be expanded: more physical capital, more knowledge capital, new technologies, and institutions.

The Specific Factor Model developed by Samuelson and Jones and the Heckscher-Ohlin Model highlights the relevance of resources, endowments, or factors, in their impact on economic performance.

Robert Barro¹³ made an outstanding contribution in his famous work "Determinants of Economic Growth". Barro correlated per capita income and levels of human capital, such as education and life expectancy. Growth is positively correlated with property rights and negatively correlated with government consumption expenditures. Changes in terms of trade and trade intensity are positively correlated with growth. Growth is also correlated with the level of technology. Barro also correlated Freedom House's civic and political freedom (considered measures of levels of democracy) with growth. Per capita income correlates with democracy; social and educational equality correlates with growth. Even religions have something to say about the level of democracy. Finally, inflation harms growth because of the negative impact that uncertainty has on the level of investment.

¹¹ Jones, Charles I.; Vollrath, Dietrich. *Economic Growth*. W. W. Norton & Company. New York, London. 2013. pp. 178-179.

¹² Vanhoudt, Patrick; Onorante, Luca (2001) : The measurement of economic growth and the new economics, *EIB Papers*, ISSN 0257-7755, Vol. 6, Iss. 1, pp. 63-83, <http://hdl.handle.net/10419/44809>

¹³ Barro, Robert J. Determinants Of Economic Growth:A Cross-Country Empirical Study. NBER Working Paper 5698. National Bureau of Economic Research. https://www.nber.org/system/files/working_papers/w5698/w5698.pdf

Nieswiadomy and Strazicich¹⁴ also analyze a set of variables related to economic freedom, educational levels, and the legal system and reach the same conclusions.

According to Kugler and Feng, the existence of democratic institutions is also crucial as a promoter of political stability, higher education, more entrepreneurship, and higher investments based on lower risk. Aron, Esposto, and Zaleski highlight the central role of institutions and on this basis, their strong correlation with economic growth. Persson and Tabellini studied the impact of monetary and fiscal policy on voters. Denis Moeller conducted a comprehensive analysis that applies mathematics, game theory, and economics to political science. Moeller bases his study on the voting power of individuals and stresses that an economic analysis must be based on the analysis of the interaction between agents and institutions.

First resource: human capital promotes economic growth

Human capital is the first critical resource needed to promote economic growth.

Robert Solow¹⁵ shows that during the 20th century, much of the growth cannot be explained by physical capital; later research shows that human capital was responsible for it.

Gregory Mankiw, David Romer, and David Weil¹⁶ extended Solow's model by introducing human capital, showing better performance with higher income and productivity.

¹⁴ Nieswiadomy Michael L.; Strazicich, Mark C. Are political freedoms converging? *Economic Inquiry*. 42 (2): 323-341

¹⁵ Solow, Robert. Technical Change and the Aggregate Production Function. *Review of Economics and Statistics*. 1957.

¹⁶ Mankiw, N. Gregory; Romer, David; Weil, David N. A Contribution to The Empirics Of Economic Growth. *The Quarterly Journal of Economics*. May 1992.

Robert Lucas Jr. and Paul Romer introduce factors such as skills and knowledge as parts of human capital, which impact productivity and technological progress, increasing rates of return.

Human capital includes talent, education, training, health

The concept of human capital was introduced by Adam Smith, who considered talents and education as part of the capital of the individual and society.

Gary Becker, Jacob Mincer, and Theodore Schultz developed a modern conception of human capital.

Theodore Schultz defends the centrality of human capital, including health, on-the-job training, schooling, adult education, and migration, in promoting economic growth.

Mincer developed the "schooling model": how human capital based on education and training positively impacts the economy.

Human capital includes knowledge, information, ideas, skills, and health

Gary Becker explains that human capital refers to the knowledge, information, ideas, skills, and health of individuals:

This is the "age of human capital" in the sense that human capital is by far the most critical form of capital in modern economies. The economic success of individuals, and also of economies as a whole, depends on how extensively and effectively people invest in themselves.¹⁷

The expansion of scientific and technical knowledge increases the productivity of labor and other inputs in production. The systematic application of scientific knowledge to the production of

¹⁷ Becker, Gary S. *Human Capital. A Theoretical and Empirical Analysis, with Special Reference to Education*. The University of Chicago Press. 1993. p. 1.

goods has greatly increased the value of education, technical schooling, and on-the-job training, as the growth of knowledge has been embodied in individuals, in scientists, academics, technicians, managers, and other contributors to production. It is clear that all countries that have achieved persistent income growth have also had large increases in the education and training of their labor force.¹⁸

Claudia Goldin summarizes the benefits of human capital as follows:

Human capital is the stock of productive skills, talents, health and experience of the labor force, just as physical capital is the stock of plant, equipment, machines and tools. Within each type of capital the output, yield and efficiency may vary. Stocks of human and physical capital are produced through a set of investment decisions, where investment is costly in terms of direct costs and, for investment in human capital, in terms of the opportunity cost of the individual's time.¹⁹

Eric A. Hanushek and Ludger Woessmann²⁰ studied the impact of schooling and cognitive skills on economic growth. They conclude that: "Cognitive skills have powerful effects on people's income, income distribution, and economic growth".

Human capital as a set of skills, knowledge, social and personality attributes, including creativity

According to Clifford and Novaro:

¹⁸ Ibid. p. 24.

¹⁹ Goldin, Claudia. Human Capital. *Handbook of Cliometrics*, Claude Diebolt and Michael Hauptert, eds. Springer-Verlag. 2014. p. 24.

²⁰ Hanushek, Eric A. and Ludger Woessmann. The role of cognitive skills in economic development. *Journal of Economic Literature* 2008.

Human capital is the set of skills, knowledge, and social and personality attributes, including creativity, that is embodied in the ability to perform work to produce economic value. It is an aggregate economic view of human beings acting within economies at the macro level and within organizations at the micro level, which is an attempt to capture social, biological, cultural and psychological complexity as they interact in explicit economic transactions.²¹

Second resource: social capital as a prerequisite for economic growth

Social capital is a resource that fosters production and wealth. Social capital positively impacts economic growth, civility, happiness, health, life extension, and community building.

Tom Schuller summarizes the benefits of social capital as follows:

Social capital has been deployed to explain a wide range of social phenomena, such as overall economic performance, levels of crime and disorder, immigrant employment, and health trends.²²

Social capital can be directly linked to economic outcomes at very different levels: at the level of nation states (e.g. Fukuyama 1996), at the regional level (e.g. Maskell et al. 1998) or between and within communities or organizations (see Grootaert 1998). It also has broader outcomes, such as the generation of more social capital. Some of these - for example, the maintenance of social cohesion - in turn contribute indirectly to improved economic performance. Seen from a social capital perspective, the direct impact of

²¹ Clifford, Nyone B. and Rosemaria C. Obaro. Human Capital Development on Employee Performance. *Proceedings of the Second American Academic Research Conference on Global Business, Economics, Finance, and Social Science*. 2017. New York.

²² Schuller, Tom. *The Complementary Roles of Human and Social Capital*. Birkbeck College, University of London. pp. 15-16.

training can be as much in the strengthening of networks and information flows as in the acquisition of individual skills or improved productivity.²³

Communication and teamwork skills are two of the most universally recognized competencies for a modern economy. They can be interpreted at a basic practical level, where productive efficiency requires good communication among workgroup members. But the same message applies at other levels, where a professional community depends for its health on trust and openness in the exchange of information, whether this is explicit or remains tacit.²⁴

Defining social capital

The World Bank defines social capital as follows:

A society's social capital includes the institutions, relationships, attitudes and values that govern interactions between people and contribute to economic and social development. However, social capital is not simply the sum of the institutions that underpin society, but also the glue that holds them together. It includes the shared values and norms of social conduct expressed in personal relationships, trust and a common sense of "civic" responsibility that make society more than a collection of individuals. Without a degree of common identification with forms of government, cultural norms and social rules, it is difficult to imagine a functioning society.

The narrowest concept of social capital is associated with Putnam, who sees it as a set of "horizontal associations" between people: social capital consists of social networks ("civic engagement networks") and associated norms that have an effect on community productivity.

²³ Ibid. pp. 4-5.

²⁴ Ibid. p. 17.

A second, broader concept of social capital was put forward by Coleman, who defines social capital as "a variety of different entities, with two elements in common: they all consist of some aspect of the social structure, and they all facilitate certain actions of actors - whether personal or corporate actors - within the structure." This definition broadens the concept to include both vertical and horizontal associations, and also behavior within and between other entities such as firms.

A third and most comprehensive view of social capital includes the social and political environment that shapes the social structure and enables the development of norms. In addition to the largely informal and often local horizontal and hierarchical relationships of the first two concepts, this view also includes the more formalized institutional relationships and structures, such as government, the political regime, the rule of law, the judicial system, and civil and political liberties. This focus on institutions is inspired by North and Olson, who have argued that such institutions have an important effect on the pace and pattern of economic development.²⁵

Tristan Claridge presents a variety of definitions of social capital:

Social capital is about the value of social networks, which bring similar people together and build bridges between diverse people, with norms of reciprocity (Dekker and Uslaner 2001]; Uslaner 2001). Sander (2002, p. 213) stated that "the conventional wisdom that more people get their jobs because of who they know, rather than what they know, turns out to be true". Adler and Kwon (2002) noted that the central intuition guiding research on social capital is that the goodwill that others have toward us is a valuable resource.

²⁵ World Bank (1998) *The Initiative on Defining, Monitoring and Measuring Social Capital. Overview and Program Description*, Washington, DC: World Bank (Social Development Family). pp. 1-2.

Thus, they define social capital as "the goodwill available to individuals or groups. Its origin is in the structure and content of the actor's social relations. Its effects derive from the information, influence and solidarity it makes available to the actor" (Adler and Kwon 2002, p. 23). Dekker and Uslaner (2001) stated that social capital is fundamentally about how people interact with each other.

Social capital foregrounds the social networks and values through which skills portfolios are generally built, deployed and rewarded.²⁶

According to Claridge, definitions can be based on "whether they focus primarily on (1) the relationships an actor has with other actors, (2) the structure of relationships between actors within a collectivity, or (3) both types of linkages (adapted from Adler and Kwon 2002)".²⁷ Schuller, Baron, and Field define two types of social capital:

Bonding social capital refers to ties between like-minded people, or the reinforcement of homogeneity. It creates strong ties, but can also lead to higher walls that exclude those who do not qualify, with American college fraternities being a prime example of this type of bonding.

Bridging social capital [...] refers to building connections between heterogeneous groups; they are likely to be more fragile, but also more likely to foster social inclusion.²⁸

Social capital generates reciprocity, trust, altruism, social norms, community, and resources such as information, knowledge, business

²⁶ Claridge, Tristan. *Social capital and natural resource management: An important role for social capital?* Unpublished thesis. 2004. University of Queensland, Brisbane, Australia. <https://www.socialcapitalresearch.com/literature/definition/>

²⁷ Ibid.

²⁸ Schuller, T., and S. Baron, J. Field. *Social capital: A review and critique*. Oxford University Press. 2000. p. 10.

opportunities, money, organizational resources, and emotional support.

James Coleman considers that social capital is productive, functional, instrumental, quite similar to financial capital; it is based on the model of rational decisions, showing how social capital benefits all levels of society, promoting cooperation with mutual benefit.

Robert Putnam: social capital fosters integration, cooperation, trust, and collective knowledge, which promote economic growth

According to Robert Putnam:

Social capital refers to the connections between individuals: the social networks and the norms of reciprocity and trust that arise from them. In that sense, social capital is closely related to what some have called "civic virtue."²⁹

Putnam considers social capital as: "characteristics of social organizations, such as networks, norms and trust that facilitate action and cooperation for mutual benefit".³⁰

In his famous book "*Bowling Alone: The Collapse and Revival of American Community*"³¹, he presents ample evidence of the decline of social capital in the U.S. The most dramatic is how bowling leagues have declined sharply in membership, while the number of people bowling alone has risen sharply. Declining social capital fosters unhappiness as well as less civic participation.

²⁹ Putnam, Robert D. *Bowling alone. The collapse and revival of American community*. Simon & Schuster. New York. 2000. p. 17.

³⁰ Putnam, Robert D. *The Thriving Community: Social Capital and Public Life. The American Prospect*. 1993. <https://prospect.org/article/prosperous-community-social-capital-and-public-life>

³¹ Putnam, Robert D. *Bowling alone. The collapse and revival of American community*. Simon & Schuster. New York. 2000. p. 17.

Social capital is a resource that promotes human well-being; it fosters cooperation to solve collective problems. It promotes trust, which allows for more frequent interactions and reduced transaction costs. It promotes the creation of collective knowledge and awareness. It facilitates the achievement of community members' personal goals. Connecting makes societies stronger and more integrated; it helps societies grow and expand.

Social capital and trust. Fukuyama: social capital promotes trust, a prerequisite for prosperity

Francis Fukuyama sees social capital as a prerequisite for stable liberal democracy to promote cooperation in civic, economic, and political realities. Fukuyama defends the notion that "trust" is necessary for countries to prosper:

Trust is the expectation that arises within a community of regular, honest and cooperative behavior, based on commonly shared norms, on the part of other members of that community. Social capital is a capacity that arises from the prevalence of trust in a society or certain parts of it. It can be embodied in the smallest and most basic social group, the family, as well as in the largest of all groups, the nation, and in all other groups in between. Social capital differs from other forms of human capital in that it is often created and transmitted through cultural mechanisms such as religion, tradition, or historical habitus.³²

The agency problem increases transaction costs and moral hazard

One source of transaction costs is the agency problem.

³² Fukuyama, Francis. *Trust: The Social Virtues and the Creation of Prosperity*. Simon and Schuster. 1996. p. 43.

Michael C. Jensen and William Meckling³³ describe the conflict of interest and asymmetric information between principals and agents and the agency costs they generate, for example: between managers (agents) and shareholders (principals), politicians (agents) and voters (principals), or firms (agents) and customers (principals).

Principals and agents have different interests, and agents usually have better information than principals; consequently, they can use it to their advantage, generating moral hazard.

There are several ways to minimize these transaction costs, such as contracts, incentives, and enhanced information mechanisms to provide transparency, which generate additional transaction costs. In many cases, they do not eliminate the problem.

Social capital reduces transaction costs and builds trust

For Putnam and Fukuyama, social capital reduces the transaction costs associated with coordination, such as contracts, rules, and consequences: negotiations, monitoring, litigation, and enforcement.

People who do not trust each other will end up cooperating only under a system of formal rules and norms, which have been negotiated, agreed upon, litigated, and enforced, sometimes by coercive means. Widespread distrust in a society, in other words, imposes a kind of tax on all forms of economic activity, a tax that high-trust societies do not have to pay.³⁴

³³ Jensen, Michael C.; Meckling, William H. Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, October, 1976, V. 3, No. 4, pp. 305-360.

³⁴ Fukuyama, Francis. *Trust: The Social Virtues and the Creation of Prosperity*. Simon and Schuster. 1996. p. 44.

Paul F. Whiteley³⁵ investigated the relationship between trust and GDP per capita in a sample of countries during 1992, showing a positive correlation, as shown in Fig. 1. Trust has a positive impact on National Intellectual Capital, institutions, and success of political regimes.

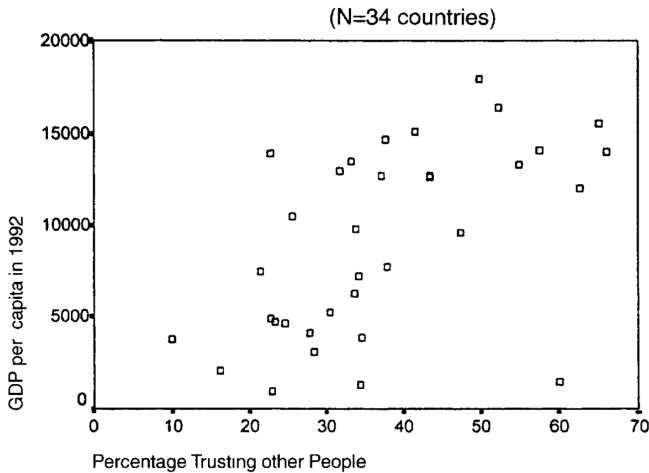


Figure 1 GDP per capita and confidence in 1992, 34 countries. Whiteley, Paul F. *Economic growth and social capital*. Political studies. Blackwell Publishers. Oxford. United Kingdom. 2000.

Trust also positively impacts microeconomics, and organizations, reducing transaction costs between organizations.

Game theory: trust fosters cooperation

Thomas Schelling and Robert Aumann³⁶ studied the phenomena of conflict and cooperation through game-theory analysis. Game theory was developed to study strategic decision-making, analyzing

³⁵ Whiteley, Paul F. *Economic growth and social capital*. *Policy Studies*. Blackwell Publishers. Oxford. UK. 2000.

³⁶ Abu Turab Rizvi, S.. Aumann's and Schelling's Game Theory: The Nobel Prize in Economic Science, 2005. *Review of Political Economy* 19 (2007): 297 - 316.

whether rational players should cooperate. Based on each player's potential gains or losses, game theory can predict whether they cooperate when making rational decisions. Each player considers the other player's actions when making decisions. A player makes their decisions considering what the other player might decide. If the first player wants to cooperate but believes that the second player will act for their benefit, there is no reason to cooperate, even if it negatively impacts the first player.

Social capital and culture. A culture of trust fosters economic growth

Daron Acemoglu and Matthew O. Jackson³⁷ drew on game theory to show how culture and history influence social cooperation. In other words, past behavior encourages expected behavior but changes when leadership introduces new cues, expectations, and norms.

Luigi Guiso, Paola Sapienza, and Luigi Zingales³⁸ define culture as "those customary beliefs and values that ethnic, religious and social groups transmit with little change from generation to generation". They consider that the impact of culture on political economy was to be expected in classical political economy. Adam Smith considered his "Theory of Moral Sentiments" an integral part of the "Wealth of Nations". Moreover, John Stuart Mill regarded cultural constraints as sometimes more critical than pursuing self-interest in his "System of Logic". For Marx, different forms of production produce different social classes and cultures. For Weber, religion (Protestantism) produces the pursuit of wealth as a duty.

³⁷ Acemoglu, Daron; Jackson Matthew O. History, expectations, and leadership in the evolution of cooperation. *Journal of Economic Studies*. Massachusetts Institute of Technology. Department of Economics. Working Paper Series. 2011. Cambridge.

³⁸ Guiso, Luigi; Sapienza, Paola; Zingales, Luigi. Does culture affect economic performance? *The Journal of Economic Perspectives*. 2006. p. 2.

Putnam shows how in Italy, even with the same institutions throughout the country, some areas have more significant social capital and better functioning.

Fukuyama believes that a culture of trust is necessary for economic prosperity.

Guiso et al.³⁹ confirm the link between culture and economic prosperity:

- A direct regression between confidence and economic performance.
- Confidence has a positive impact and correlation with becoming an entrepreneur.
- A culture that values savings positively correlates with the national savings rate.
- Culture influences policy and institutional preferences and, consequently, behavior and outcomes.
- Culture and religion influence attitudes toward hard work, redistribution, and government welfare.
- Culture influences the belief that poverty is society's fault and not the fault of the individual's work.
- Culture influences social capital, which impacts social organizations, such as health and education organizations.
- Culture influences attitudes toward "autonomy, egalitarianism, leading to the greater rule of law, less corruption and more democratic accountability".
- "Trust, belief in the importance of personal effort, generalized morality and low obedience" have a positive correlation with

³⁹ Guiso, Luigi & Sapienza, Paola & Zingales, Luigi. (2006). Does Culture Affect Economic Outcomes?. *Journal of Economic Perspectives*. 20. 23-48. 10.2139/ssrn.876601.

the effectiveness of institutions and, consequently, with wealth and economic growth.⁴⁰

Culture promotes the success of institutions; cultural beliefs have a definite impact on institutions, rules of the game, organizations, and, consequently, economic growth

While trust can result from culture, it can also result from institutions that promote certain behaviors.

Alberto Alesina and Paola Giuliano conclude that:

Culture and institutions interact and evolve in complementary ways, with mutual feedback effects. Thus, the same institutions may function differently in different cultures, but culture may evolve differently depending on the type of institutions. We discuss many examples of this interaction, for different types of institutions (such as political and legal institutions, regulation, and the welfare state) and different cultural traits (including trust, family ties, individualism, and generalized morality).⁴¹

Guido Tabellini⁴² measures culture through indicators of personal values and beliefs, such as trust and respect for others and confidence in one's self-determination. Analyzing Europe, he finds that:

The more backward regions (with higher illiteracy rates and worse political institutions) tend to have specific cultural traits today: less generalized trust, less respect for others, less trust in the

⁴⁰ Ibid.

⁴¹ Alesina, Alberto and Paola Giuliano. Culture and institutions. *Journal of Economic Literature*. 2015. p. 938.

⁴² Tabellini, Guido. Culture and institutions: economic development in the regions of Europe. *Journal of the European Economic Association*. 2010.

individual. [Less trust and respect for others and less self-confidence are associated with lower per capita output and slower growth rates.⁴³

In Tabellini's view: Historical institutions → Culture → Economic development. Trust implies being trustworthy and having a general morality; morality does not depend on behaving correctly with friends and family, as in collectivist societies: morality implies behaving according to democratic rules, as in individualist societies, respecting institutions, on every occasion, whether related to personal situations such as paying taxes, or general situations such as morality in public office.

According to Tabellini, autocratic and corrupt regimes demand arbitrary distribution of privileges and the use of force, fostering distrust, powerlessness, and resignation. On the opposite side, a democratic culture fosters trust, entrepreneurship, investment, a strong work ethic that encourages productivity, institutions' support, and widespread morale. This reinforces positive cultural values based on role models: a culture that fosters general morality leads to economic growth.

Guiso et al. showed that:

Trust between European countries differs systematically, which is correlated with their different cultural heritages. [...] These differences in trust appear to have economically important effects on trade, portfolio investment and foreign direct investment. [...] Cultural differences may also explain why Rose (2000) finds that historically currency unions have boosted trade by 235%, while Baldwin (2005) finds that the euro currency union increased trade by only 9%. The unions studied by Rose (2000) are between coun-

⁴³ Ibid. p. 3.

tries with very close cultural roots, such as Belgium and Luxembourg. In contrast, as documented in this paper, there are still significant cultural barriers within the European Union.⁴⁴

Avner Greif⁴⁵ compares how the differences in "cultural beliefs" between the Maghrebi traders (belonging to the Muslim world) and the Genoese (belonging to the Latin world) from the 11th century onwards affected their economic success. The Maghrebis resemble a modern collectivist society; the Genoese resemble a modern individualist society.

According to Greif, cultural beliefs influence personal decisions, social organizations, social constructs, institutions such as norms, and enforcement. Merchants in both societies needed to hire agents or other merchants to conduct their trade abroad; therefore, both had to manage "merchant-agent" or "merchant-merchant" relationships. Genoese individualistic cultural beliefs lead to little information sharing, punishment for non-compliance based on political, economic, and legal organizations, a vertical principal-agent relationship, with higher salaries based on efficiency, agents can move up. Maghrebi collectivist cultural beliefs lead to more intense social interaction, more information exchange based on a smaller group, punishment based on social and economic condemnation, more horizontal relationships between traders or agents, lower wages, and agents not moving up. According to Greif:

The collectivist system is more efficient in supporting intra-economic agency relations and requires less costly formal organizations (such as courts of law), but restricts inter-economic agency relations. The collectivist system does not restrict inter-economic

⁴⁴ Guiso, Luigi; Sapienza, Paola; Zingales, Luigi. Cultural problems in economic exchange. *Quarterly Journal of Economics*. 2008. p. 24.

⁴⁵ Greif, Avner. Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies. *The Journal of Political Economy*. 1994.

agency relations, but is less efficient in supporting intra-economic relations and requires costly formal organizations.⁴⁶

In conclusion, cultural beliefs significantly impact institutions, game rules, organizations, and economic growth. Economic growth does not depend only on resources and technology; cultural and social issues influence it.

Institutions, habits, customs, conventions, social structures, and social actors promote social cooperation

While extreme individualism is abandoned, the study of institutions becomes a central part of political economy. Institutions can be habits, customs, or conventions, and the institutionalism more focused on public decisions (Public Choice) analyzes them. Institutions can be social structures and social actors, such as families, constitutions, legal, political, military, religious, business, and financial institutions.

Institutionalism is responsible for the social security laws of the 1930s and the civil rights movements of the 1960s, and ultimately the Affordable Care Act (Obamacare). People voted to have those laws because no one wants to live in a world with poverty, crime, and marginalization, and society is willing to pay a cost to live in social harmony.

Institutionalism compensates for laissez-faire, which leads to market concentration with adverse social effects; it compensates minorities affected by the negative consequences of individualism, which leads to non-cooperation; it reduces social unrest, crime, marginalization, and corruption, which are bad for everyone.

⁴⁶ Ibid. pp. 939-940.

Social capital and institutions promote economic growth. Thorstein Veblen: formal, cultural, and social structures to solve the adverse effects of the free market

Economic institutionalists such as Veblen and Commons focus on the formal, cultural, and social structures that lead to cooperation to foster economic prosperity.

Thorstein Veblen⁴⁷ introduced an institutional view of economics. A critic of economic theory believed that economics is part of a larger picture, involving sociology, history, biology, and psychology, to explain the economic change. He introduced terms such as conspicuous consumption, conspicuous waste, and pecuniary emulation. In some dimensions, he sympathized with Marx, his concern with classes, the role of property institutions, the inherent instability of capitalism, and entrepreneurs controlling the state. However, he disagreed with Hegel's view of the dialectical evolution of history with Marx's labor theory of value, surplus value, and class struggle.

The institution of a leisure class has gradually arisen during the transition from primitive savagery to barbarism; or more precisely, during the transition from a peaceful to a consistently warlike habit of life.⁴⁸

The institution of the leisure class is the result of an ancient discrimination between jobs, according to which some jobs are worthy and others unworthy. According to this ancient distinction, worthy employments are those which may be classed as exploitative; unworthy are those necessary day-to-day employments into which no appreciable element of exploitation enters.⁴⁹

⁴⁷ Veblen, Thorstein. *The theory of the leisure class*. Oxford University Press. 2016. p. 5.

⁴⁸ Ibid. p. 5.

⁴⁹ Ibid. p. 5.

A distinction is still customarily made between industrial and non-industrial occupations; and this modern distinction is a transmuted form of the barbarous distinction between feat and drudgery. Such employments as war, politics, public worship, and public amusement, are regarded as intrinsically different from work which has to do with the making of the material means of life.⁵⁰

Predation cannot become the usual and conventional resource of any group or class until industrial methods have been developed to such a degree of efficiency as to leave a margin worth fighting for, over and above the subsistence of those who are engaged in earning a living. The transition from peace to predation depends, therefore, on the growth of technical knowledge and the use of tools.⁵¹

In the sequence of cultural evolution, the appearance of a leisure class coincides with the beginning of property. This is necessarily so, since these two institutions are the result of the same set of economic forces.⁵²

Therefore, as soon as the possession of property becomes the basis of popular esteem, it also becomes a requisite for the complacency we call self-respect.⁵³

The early ascendancy of leisure as a means of reputation is due to the archaic distinction between noble and ignoble employments. Leisure is honorable and becomes imperative partly because it shows exemption from ignoble work.⁵⁴

The basis on which good reputation rests in any highly organized industrial community is ultimately pecuniary strength; and the means of displaying pecuniary strength, and thus gaining or

⁵⁰ Ibid. p. 6.

⁵¹ Ibid. p. 10.

⁵² Ibid. p. 12.

⁵³ Ibid. p. 16.

⁵⁴ Ibid. p. 43.

retaining a good name, are leisure and a conspicuous consumption of goods.⁵⁵

In conclusion, institutions are needed to solve the problems that the excesses of free markets can generate.

John Rogers Commons: institutions, collective action, establish and enforce norms to promote cooperation

John Rogers Commons believed that economics required an interdisciplinary view involving sociology, psychology, history, and law, among other socio-economic sciences.

Collective action ranges from unorganized custom to the many organized enterprises in progress, such as the family, the corporation, the trade association, the labor union, the reservation system, the state. The principle common to all of them is the greater or lesser control, liberation, and expansion of the action of the individual through collective action.⁵⁶

Whether it is the state, whether it is a joint stock company, whether it is a cartel, whether it is a holding company, whether it is a cooperative association, whether it is a trade union, whether it is an association of entrepreneurs, whether it is a joint business agreement of two associations, whether it is a stock exchange, whether it is a board of trade, they can establish and enforce the rules that determine for individuals this set of correlative and reciprocal economic relations. In fact, these collective acts of economic organizations are sometimes more powerful than the collective action of the political interest, the state.⁵⁷

⁵⁵ Ibid. p. 40.

⁵⁶ Commons, John Rogers. Institutional Economics. *American Economic Review*, vol. 21. 1931. p. 648.

⁵⁷ Ibid. p. 648.

These actions of people are actually transactions rather than the behavior of people or an "exchange" of commodities. It is this shift from commodities and persons to transactions and rules of operation of collective action that marks the transition from classical and hedonic schools to institutional schools of economic thought.⁵⁸

New Institutionalism: Three Approaches to Structuring Collective Behavior

Peter A. Hall and Rosemary C. R. Taylor⁵⁹ presented an excellent analysis of three approaches to New Institutionalism. Hall and Taylor conclude that the three approaches should exchange views, working together based on their strengths and weaknesses, integrating their views, and enriching their analyses and conclusions.

As Hall and Taylor explain:

1. **Historical institutionalism** sees institutions as arising from the conflict between groups, rooted in asymmetrical power. They define institutions "as the formal or informal procedures, routines, norms and conventions embedded in the organizational structure of politics or political economy". Institutions can reinforce power asymmetries.

Institutions become a "major factor that structures collective behavior and generates distinctive outcomes". People's behavior is based on calculation, which seeks to maximize per-

⁵⁸ Ibid. p. 649.

⁵⁹ Hall, Peter A. and Rosemary C. R. Taylor. Political Science and the Three New Institutionalisms. Paper presented by Professor Hall, a member of the Scientific Advisory Board of the Max-Planck-Institut für Gesellschaftsforschung, as a public lecture during the Board meeting. Cologne. Germany. 1996. *Econstor*. <https://www.econstor.eu/bitstream/10419/43185/1/214865738.pdf>.

sonal goals, or on a culture that follows family traditions, established routines, morals, and symbols. Since these are two different criteria, they provide some uncertainty to their conclusions.

- 2. Sociological institutionalism** offers a broader definition of institutions, including symbols, cognitions, and moral frameworks that provide meanings. They see culture contributing to these meanings; social constructivism becomes a central theory to explain how society influences personal cognitions.

The role of leaders becomes central in the way they provide legitimacy to some collective decisions based on their cultural authority, professionalism, and cognitive maps.

- 3. Institutionalism based on rational decisions** is affected by transaction costs and the agency problem.

Ronald Coase explains what businesses exist when faced with the acquisition of goods in markets, introducing the impact of transaction costs, information costs, negotiation, trade secrets, and law enforcement.

Oliver E. Williamson analyzes the impact of transaction costs: if there were no transaction costs, firms would buy the products in the market, but if transaction costs are more relevant, firms need to establish contracts and eventually own the output.

Game theory and econometrics explain individual behavior rationally: institutions provide a framework for people's behaviors to converge toward collective benefits. Institutions propose ways to avoid the lack of cooperation caused by the uncertainty inherent in the "prisoner's dilemma" or the "tragedy of the commons" in which the lack of an institutional framework can lead to severe sustainability problems and the depletion of natural resources, deterioration of the environment.

Douglass North and rational decisions: Institutionalism encourages predictable behavior, reduces transaction costs, promotes investment and economic growth

Douglass North, a scholar of rational decisions, studied the impact of institutions on economic growth:

Institutions and their evolution determine economic performance. Together with the technology employed, they determine the cost of transactions and production. Institutions consist of formal rules, informal constraints (self-imposed norms of behavior, conventions and codes of conduct) and the enforcement characteristics of both. In short, they consist of the structure that human beings impose on their dealings with others. Consequently, they structure the incentives in exchange, whether political, social or economic. [...] Although neoclassical theory focuses on the functioning of efficient markets, few Western economists understand the institutional requirements essential to the creation of such markets; they simply take institutions for granted.⁶⁰

To create economic value, some agents abuse market power and resources, speculation, in line with North: markets are inefficient, and economic agents make decisions that can negatively affect others.

The rational decision model explains the needs of institutions to induce cooperation

According to Barry Weingast, North's definition "translates into the study of how institutions constrain the sequence of interaction among actors, the choices available to particular actors, the structure

⁶⁰ North, Douglass C. *Transaction costs, institutions, and economic performance*. International Center for Economic Growth. 1992. San Francisco. p. 7.

of information and thus actors' beliefs, and the trade-offs for individuals and groups."⁶¹

Weingast shows how, using the game theory model of the prisoner's dilemma when early players are uncertain about the behavior of others, they are very likely to be unwilling to play and uncooperative. However, with institutions, laws, regulations, and proper enforcement, the behavior of others becomes more predictable, which would induce the early players to cooperate. The rational decision model explains the needs of institutions to promote cooperation and how institutions, to survive and remain stable, require that all members of society adhere to a list of rules.

North⁶² sees institutions necessary to reduce transaction costs: "man-made constraints that structure political, economic and social interactions". North compares the poor quality of institutions in developing countries, manifested in poorly framed property rights and inefficient operations and markets. These factors raise transaction costs and discourage investors from investing in new businesses: higher information costs to manage more complex contracts, higher law enforcement costs, bribery and corruption costs, and higher transformation costs can make investment unprofitable or prohibitive.

Markets increase transaction costs; institutions reduce them by controlling socially harmful behavior

According to North⁶³, markets have grown over the last centuries in size and geographical dispersion, which has led to an increase in transaction costs. North identifies several transaction costs: agency, information asymmetry between the parties to the exchange, contract enforcement, and differing ideologies. "Transaction costs arise because

⁶¹ Weingast, Barry R. *Rational Choice Institutionalism*. Stanford University. 2002. p. 690.

⁶² North, Douglass C. *Transaction costs, institutions, and economic performance*. International Center for Economic Growth. 1992. San Francisco.

⁶³ Ibid.

information is costly and asymmetrically held by the parties to the exchange". The role of political, economic, and legal institutions is to reduce these transaction costs by controlling socially harmful behavior.

Economics is about scarcity and therefore about competition, and while economists rightly praise competition as the force that drives efficient markets, it is also the force that leads people to structure the economy to favor themselves at the expense of others. [...] Efficient markets are a consequence of institutions that provide low-cost measurement and enforcement of contracts at a given point in time.⁶⁴

Institutions set the frameworks for the activities of organizations.

As North argues, a critical element of the institutional arrangement is the organizations and the entrepreneurs within those organizations:

If institutions are the rules of the game, organizations are the players. Organizations are made up of groups of people engaged in an intentional activity. The constraints imposed by the institutional framework (along with the other usual constraints of the economy) define the opportunity set and thus the type of organizations that will emerge. Given the objective function of the organization - maximizing profit, winning elections, regulating business, educating students - organizations such as businesses, political parties, regulatory agencies, and schools or universities will be dedicated to acquiring skills and knowledge that improve their chances of survival in the context of pervasive competition.⁶⁵

⁶⁴ Ibid. p. 8.

⁶⁵ Ibid. p. 7.

The impact of institutions on the ideology of organizations

According to North, the first aspect to consider is epistemological:

The first step in development is to acquire information about the contours of the economy to help identify transaction and production costs and the institutions that underlie those costs. But there is more to information processing than just data. There is what I have called the mental models of actors; that is, how relevant actors - not only policymakers in democratic and non-democratic politics, but also the public - view problems.⁶⁶

In other words: what matters is what the economic agents want, their objectives, strategies, and decisions. This reveals the centrality of ideology:

Ideology, which consists of the subjective "models" that people possess to explain and evaluate the world around them, not only plays an essential role in political choices, but is also a key to people's choices that affect economic outcomes. [...] The importance of ideology is a direct function of the degree to which measuring and enforcing contracts is costly. [...] The mental models that people possess are partly derived from culture, partly acquired through experience, and partly learned (non-culturally and non-locally).⁶⁷

⁶⁶ Ibid. p. 19.

⁶⁷ Ibid. p. 10.

The interaction between institutions (the rules of the game) and organizations (the players) is the key to institutional change

North proposes five statements that integrate the concepts of institutions, organizations, competition, incentives, ideology, and institutional change.

1. The continuous interaction between institutions (the rules of the game) and organizations (the players) in the economic framework of scarcity and, therefore, of competition, is the key to institutional change". Change involves "shaping institutions, the human-imposed constraints on human interaction that define the incentive structure of society, and shaping organizations: the structure, governance and policies of purposeful entities.
2. Competition forces organizations to continually invest in skills and knowledge in order to survive. The types of skills and knowledge that people and their organizations acquire will shape the evolution of perceptions about opportunities and thus the choices that will progressively alter institutions. The learning of individuals and organizations is the primary influence on the evolution of institutions.
3. The institutional framework provides the incentives that dictate the types of skills and knowledge that are perceived to be of maximum return. The perception that investment in skills and knowledge that make the individual, the organization and the economy more productive results in long-term economic growth.
4. Perceptions are derived from the mental constructs of the actors. It is important to define the subjective models that people

have for interpreting information and the information they receive, especially when it comes to making more complicated decisions in a world of complex problems and incomplete information, where subjective models are used to analyse problems and interpret that incomplete information.

5. The economies of scope, complementarities and network externalities of an institutional matrix make institutional change overwhelmingly incremental and path-dependent. Revolutions are extraordinary and even when they occur they turn out over time to be far less revolutionary than their initial rhetoric might suggest. Yesterday's choices are the starting point for today's: the difficulty of fundamentally altering paths is evident and suggests that the learning process by which we arrive at today's institutions constrains future choices. The institutional structure incorporates a set of constraints with respect to subsequent changes that bias choices.⁶⁸

The quality of institutions is related to economic growth

Janine Aron⁶⁹ presents a correlation between economic growth and institutional measures in a large sample of countries: A. Institutional quality. B. Equity capital. C. Social characteristics. D. Political characteristics. E. Political instability.

The conclusions of Aron's statistical analysis are:

- Institutional quality indicators are correlated with GDP growth; endogenous variables are more highly correlated.

⁶⁸ North, Douglass C. *Five Proposals for Institutional Change*. Washington University. St. Louis. p. 1.

⁶⁹ Aron, Janine. Growth and Institutions: A Review of the Evidence. *The World Bank Research Observer*. 2000.

- Social quality indicators are weakly correlated with GDP growth but strongly correlated with institutional outcomes.
- The rest of the indicators show significant correlations with economic growth, which provides valuable insights into the science of political economy.⁷⁰

According to Aron, North's institutional framework can be integrated with Solow's growth model, reinforcing the importance of the quality and performance of formal and informal institutions in promoting economic growth.

Institutions and the role of the state

North believes in a minimal state: "If the state has coercive force, those who run the state will use that force in their own self-interest at the expense of the rest of society."⁷¹ Barry R. Weingast⁷² explains that prosperous markets require a well-designed economic system. A political system can limit the power of the state to confiscate wealth while preserving economic and political rights. Federalism provides a system of sustainable political decentralization that restricts government discretion: markets require limited government.

Institutions, not regimes, promote economic growth

Adam Przeworski and Fernando Limongi⁷³ debate whether regimes influence economic growth: which regime can best protect property rights.

⁷⁰ Ibid.

⁷¹ North, Douglass C. *Institutions, Institutional Change, and Economic Performance*. Cambridge University Press. New York. 1990. p. 58.

⁷² Weingast, Barry R. *The economic role of political institutions: market-preserving federalism and economic development*. Oxford University Press. 1995.

⁷³ Przeworski, Adam; Limongi, Fernando. Political regimes and economic growth. *Journal of Economic Perspectives*. 1993. p. 10.

According to Przeworski and Limongi, many agree that democracies are the best system for preserving property rights, a prerequisite for investment and growth. However, property rights in democracies can suffer by public suffrage, citizens can vote for expropriation, by corporate power, by the power of trade unions, by the takeover of the landless; autocrats have no one to control their actions; therefore, they cannot guarantee property rights either.

Moreover, democracies are not suitable for promoting growth. They promote consumption, reduce the money available for investment, information among voters is not perfect, competition among parties is not perfect, and agency, as politicians can be motivated by power and personal greed.

Autocracies can allocate more money to growth-related investments and less consumption; autocrats are independent of political pressures from consumers and businesses. However, autocracies can be predatory, inefficient, and can become too large and bureaucratic, and the public may have no means to monitor, control, or manage them.

Przeworski and Limongi analyzed eighteen statistical studies concluding that:

Among them, eight favored democracy, eight favored authoritarianism, and five found no difference. What is even more puzzling is that among the 11 results published before 1988, eight found that authoritarian regimes grew faster, while none of the nine results published after 1987 supported this conclusion. And since this difference does not seem attributable to samples or periods, one can only wonder about the relationship between statistics and ideology.⁷⁴

The conclusion seems clear: regimes do not seem to have a definite impact on growth.

⁷⁴ *Ibid.* p. 60.

Statistical evidence that institutions foster economic growth

There is abundant research showing the positive correlation between economic growth and institutions.

Dani Rodrik, Arvind Subramanian, and Francesco Trebbi⁷⁵ analyze the factors that impact GDP per capita: institutions, geographic location, and economic integration with other countries. The results show the significant prevalence of institutions over geography and economic integration.

Edwin Feulner⁷⁶ correlates economic growth with institutions as reflected in three indicators: property rights, absence of corruption, and the rule of law, showing that GDP is strongly correlated with institutions. Feulner correlates the rule of law index with the inflow of foreign investment and with the unemployment rate, confirming that institutions are good for business:

National Intellectual Capital as an integral view of resources

Leif Edvinsson offers a broader view of the impact of intangible resources on economic growth. Edvinsson defines National Intellectual Capital (NIC) as the engine of a nation's economic growth:

- National Intellectual Capital (potential for future well-being):
 - Human Capital (capacity and capability of people)
 - Structural Capital:
 - Market Capital (global business attractiveness)
 - Organization Capital:

⁷⁵ Rodrik, Dani; Subramanian, Arvind; Trebbi, Francesco. Institutions rule: the primacy of institutions over geography and integration in economic development. *Journal of economic growth*. 2004.

⁷⁶ Feulner, Edwin. *The Rule of Law. Index of Economic Freedom*. The Heritage Foundation. 2013.

- Renewal Capital (knowledge creation, exploitation, and innovation)
- Process Capital (operational functionality of society)

According to Eskil Ullberg, Leif Edvinsson, and Carol Yeh-Yun Linmore⁷⁷ more than 70% of the value created in Sweden comes from NIC, which outweighs physical assets by 60% and financial assets by more than 200%:

National Intellectual Capital (NIC) is composed of the knowledge, wisdom, ability and experience that gives a country a competitive advantage over other countries and determines its future growth potential." The NIC model, which comprises human capital, market capital, process capital and renewal capital, was first developed by Professors Carol Y.Y. Lin and Leif Edvinsson. Lin and Leif Edvinsson (2011) and later refined to the NIC ELSS model (Lin, Edvinsson, Ståhle, Ståhle) (Ståhle, Ståhle, & Lin, 2015).⁷⁸

Defining National Intellectual Capital

According to them, the secret recipe for success for the Nordics lies mainly in intangibles⁷⁹:

- **Human capital** includes the knowledge, wisdom, experience, intuition, and capacity of individuals to accomplish national

⁷⁷ Ullberg, Eskil; Edvinsson, Leif; Yeh-Yun Lin, Carol. Intangible Asset Gap in Global Competitiveness. Mapping and Responding to the New Economy. *Springer Briefs in Business*. Springer Nature Switzerland AG. 2021.

⁷⁸ Ibid. p. 4.

⁷⁹ Ibid. pp. 15-17.

tasks and goals. It also includes the values embodied in a nation's culture and philosophy. Human capital constitutes the total capabilities of a population reflected in education, knowledge, health, experience, motivation, intuition, entrepreneurship, and expertise. It is captured through indicators such as a highly-skilled labor force, availability of scientists and engineers, female labor force participation, and health (life expectancy, doctors). Human capital provides the resources for the development and cultivation of other areas of intellectual assets, such as R&D and training, with the human factor being the most critical link in the value creation process.⁸⁰

- **Structural capital** is the value of what is left in an organization when the employees - the human capital - have gone home. It includes databases, customer lists, manuals, brands, and organizational structures.⁸¹
- **Market capital** refers to the overall assets embodied in a nation's relationship with the international market. It is the sum of a country's capabilities and successes in offering an attractive and competitive solution to the needs of its international customers, a country's investments and achievements in foreign relations, and its exports of quality products and services (Bontis 2004). Intangible assets here include customer or country loyalty, openness to globalization, flexibility and adaptability, the resilience of the economy, as well as satisfaction expressed by strategic customers and domestic business partners.⁸²
- **Organizational capital** refers to systematized and packaged competence and systems to leverage the company's innovative

⁸⁰ Ibid.

⁸¹ Ibid.

⁸² Ibid.

strength and organizational capacity for value creation. It consists of process capital, culture, and innovation capital.⁸³

- **Renewal capital** refers to a nation's capabilities and investments to increase its competitive strength in future markets, fostering future growth. Renewal and development assets include R&D investments, patents, trademarks, start-ups, scientific publications, U.S. patents filed, EPO patent applications, total R&D spending, and innovation capacity.⁸⁴
- **Process capital** is the cooperation and flow of knowledge that requires structural intellectual assets. These include information systems, hardware, software, databases, laboratories, national infrastructure including transportation, information technology skills, communications and computerization, technology readiness and telecommunications services, personal computers, cell phone subscribers, cyber security, quality scientific research institutions, knowledge transfer, a legal environment for entrepreneurship, a minimum number of days to start a business, a quality management system, and agricultural productivity. These structural intellectual assets sustain and enhance the performance of human capital.⁸⁵

Measuring National Intellectual Capital

Edvinsson developed a model to manage Skandia's strategic management, which was extended to the NIC, with similar dimensions:

- Financial Focus, including per capita GDP, national debt, the mean value of the US dollar.

⁸³ Ibid.

⁸⁴ Ibid.

⁸⁵ Ibid.

- Market Focus, including tourism statistics, standards of honesty, the balance of services, balance of trade and intellectual property.
- Human Focus, including quality of life, average age expectancy, infant survival rate, health levels, education, level of education for immigrants, crime rate, and age statistics.
- Process Focus, including service-producing organizations, public consumption as a percentage of GDP, business leadership, information technology such as personal computers connected by LAN's, survivors of traffic accidents, and employment.
- Renewal and Development Focus, including R&D expenses as a percentage of GDP, number of genuine business start-ups, trademarks, and factors important to high school students.⁸⁶

The following table, prepared by Carol Yeh-Yun Lin and Leif Edvinsson⁸⁷, presents National Intellectual Capital indices for 41 countries:

2000–2009	Hu- man capital	Market capital	Pro- cess capital	Re- newal capital	Fi- nan- cial cap- ital	Over- all
Argentina	5.11	3.35	2.7	1.43	8.64	21.24
Australia	7.34	6.22	11	4.63	9.69	34.95
Austria	7.11	6.31	6.99	5.01	9.71	35.14
Belgium	7.34	5.66	6	4.78	9.64	33.45

⁸⁶ Edvinsson, Leif. *Corporate Longitude. What you need to know to navigate the knowledge economy*. Financial Times – Prentice Hall. 2002. pp. 115-116.

⁸⁷ Edvinsson, Leif; Yeh-Yun Lin, Carol. Modeling and measurement of national intellectual capital. *Int. J. Knowledge-Based Development*, Vol. 3, No. 1, 2012. Copyright © 2012 Inderscience Enterprises Ltd. pp. 72-73.

Brazil	4.52	4.64	3.11	1.72	8.44	22.45
Canada	8.06	6.24	4.6	5	9.72	35.62
Chile	5.23	6.63	5.16	1.72	8.74	27.49
China	4.35	5.22	3.72	2.03	7.71	23.1
Czech Re- public	5.7	5.61	5.26	2.68	9.2	28.49
Denmark	8.61	6.6	7.61	6.2	9.68	38.69
Finland	7.76	6.52	7.73	7.79	9.59	39.38
France	6.79	4.4	5.73	4.67	9.6	31.21
Germany	6.52	5.51	6.37	5.75	9.62	33.8
Greece	5.78	4.48	4.56	2.11	9.4	26.37
Hungary	6.56	5.37	5.12	2.37	9.01	28.44
Iceland	8.09	6.56	7.03	5.91	9.7	37.31
India	3.93	5.25	3.38	1.88	7.12	21.56
Ireland	6.96	7.05	6.89	3.93	9.78	34.65
Israel	7.82	5.72	6.39	7.06	9.4	36.39
Italy	6.23	4.44	5.34	2.62	9.53	28.18
Japan	7.34	4.78	5.94	6.52	9.58	34.18
Korea	6.75	5.07	5.35	4.2	9.31	30.71
Malaysia	6.03	6.48	5.34	2.07	8.69	28.69
Mexico	4.87	4.72	3.18	1.21	8.76	22.79
Nether- lands	7.27	6.8	7	5.19	9.74	36.02
New Zea- land	6.93	5.98	6.23	3.63	9.38	32.2
Norway	7.96	5.87	6.93	4.76	10	35.52
Philippines	4.94	4.58	3.2	1.34	7.41	21.45
Poland	5.92	3.94	3.52	1.85	8.85	24.17
Portugal	6.36	4.89	5.36	2.08	9.25	27.97
Russia	5.46	4.06	3.21	2.59	8.69	24.01
Singapore	7.01	8.34	7.51	5.13	9.9	37.9
South Af- rica	4.85	4.96	4.33	1.73	8.41	24.28

Spain	6.3	5.05	5.37	2.6	9.49	28.83
Sweden	8.38	6.38	7.26	7.97	9.66	39.65
Switzerland	7.58	6.39	7.38	8	9.76	39.1
Taiwan	6.87	5.9	6.28	5.04	9.45	33.59
Thailand	5.11	5.7	4.31	1.39	8.18	24.71
Turkey	4.53	4.93	3.86	1.54	8.6	23.48
UK	6.59	5.39	6.24	4.53	9.63	32.44
USA	7.84	5.65	6.85	7.11	9.9	37.34

II. SOCIAL JUSTICE IS BASED ON RESOURCES

Introduction

The purpose of this chapter is to present a summary of current political economy thinking, showing the centrality of resources to promote social justice.

According to the United Nations, the well-being of citizens requires economic growth and social justice:

The well-being of citizens requires broad-based and sustainable economic growth, economic justice, the provision of employment opportunities and, more generally, the existence of conditions for the optimal development of people as individuals and social beings.

Social justice can be broadly understood as the fair and compassionate distribution of the fruits of economic growth; however, some important qualifiers need to be added to this statement. Today, maximizing growth seems to be the primary objective, but it is also essential to ensure that growth is sustainable, that the integrity of the natural environment is respected, that the use of non-renewable resources is rationalized, and that future generations can enjoy a beautiful and hospitable earth. The conception of social justice must integrate these dimensions, starting with the right of all human beings to benefit from a safe and pleasant environment, which implies the equitable sharing among countries and social groups of the cost of environmental protection and of the development of safe technologies for production and safe products for consumption.¹

¹ The International Forum for Social Development. *Social justice in an open world. The role of the United Nations*. United Nations Department of Economic and Social Affairs. 2006

Social justice has a positive impact on economic growth

Anil Savio Kavuri and Hongwei Shao present figure 2. They see social justice as another prerequisite for economic growth since social justice "influences technology, labor, and capital, which in turn affect economic performance [...] Simple OLS regressions illustrate that, for OECD countries, a 1-point increase in the weighted index of social justice would increase GDP per capita by 61 percent when controlling for endogeneity"².

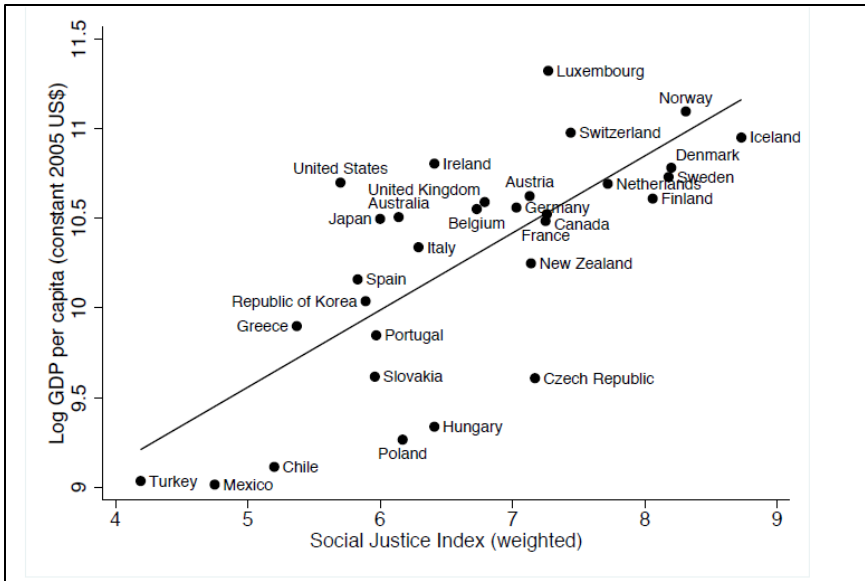


Figure 2 Correlation between wealth and social justice. Kavuri, Anil Savio, and Hongwei Shao. *The Impact of Social Justice on Economic Performance*. Crawford School of Public Policy. Centre for Applied Macroeconomic Analysis. Australia. 2017. p. 5.

² Kavuri, Anil Savio and Hongwei Shao. *The Impact of Social Justice on Economic Performance*. Crawford School of Public Policy. Centre for Applied Macroeconomic Analysis. Australia. 2017. p. 5.

Economic growth increases as equality increases

Roberto Perotti³ analyzes the relationship between income distribution and growth by investigating the four main theories that study this relationship.

According to Perotti, the first set of theories is related to **fiscal policies**:

Fiscal policy is redistributive because the taxes a person pays are proportional to his or her income; the benefits of spending, however, accrue equally to everyone [...] This relationship between the income of the median voter and the level of spending and taxes, through the political process, constitutes the first logical component of the fiscal policy approach, or its "political mechanism". In turn, redistributive public spending and taxes are negatively related to growth, mainly because of their disincentive effects on private savings and investment. The second logical component of the fiscal policy approach is this negative link between public spending and growth, which can be called its "economic mechanism."⁴

In summary:

Growth increases as distortionary taxation decreases; redistributive public spending and thus distortionary taxation decrease as equality increases; **growth increases as equality increases.**⁵

³ Perotti, Roberto. Growth, Income Distribution and Democracy: What the Data Say. *Journal of Economic Growth*, Vol. 1, pp. 149-187. p. 5.

⁴ Ibid. p. 3.

⁵ Ibid. p. 3.

Perotti's view is defended mainly by Alesina and Rodrik⁶, Bertola⁷, Perotti⁸, Persson, and Tabellini⁹.

Alberto Alesina and Dani Rodrik¹⁰ studied the relationship between economic growth and public policies: growth is driven by the expansion of capital stock, which depends on personal savings. Social policies depend on taxes, which undermine capital formation. However, when people have a relatively lower wage, they will prefer higher taxes, which reduce economic growth. Consequently, the greater the wealth and income inequality, the greater the distributive policies, the higher the tax rate, and the lower the economic growth.

Christian Groth confirms the opinion of Alesina and others:

It is the combination of a political mechanism and an economic mechanism that gives the negative correlation between inequality and growth. The political mechanism is that high inequality leads to political pressure for some form of progressive taxation. The economic mechanism is that an increase in the marginal tax rate distorts incentives to save and invest and thus leads to a lower growth rate. In models where the decline in the marginal productivity of capital is not fully compensated by other factors, the decline in the growth rate is only a temporary phenomenon (but with a permanent level effect).¹¹

⁶ Alesina, Alberto and Dani Rodrik. Distributive Policy and Economic Growth. *Quarterly Journal of Economics*. 1994.

⁷ Bertola, G. Market Structure and Income Distribution in Endogenous Growth Models. *American Economic Review*. 1993.

⁸ Perotti, Roberto. Equilibrio político, distribución de la renta y crecimiento. *Revista de Estudios Económicos*. 1993.

⁹ Persson, Torsten; Tabellini, Guido. Is Inequality Harmful to Growth? Theory and Evidence. *American Economic Review*. 1994.

¹⁰ Alesina, Alberto; Rodrik, Dani. Distributive policies and economic growth. *The Quarterly Journal of Economics*. 1994.

¹¹ Groth, Christian. On Alesina and Rodrik: Distributive Policy and Economic Growth. *Economic Growth*. Lecture Note 11. 2010.

According to Torsten Persson and Guido Tabellini:

In a society in which distributional conflict is more important, political decisions are more likely to produce economic policies that allow individuals to appropriate less of the returns to growth-promoting activities, such as capital accumulation and productive knowledge [...] Income inequality is harmful to growth because it leads to policies that do not protect property rights and do not allow full private appropriation of the returns to investment." This implication is strongly supported by historical evidence from a small sample of countries, and by postwar evidence from a large sample of countries.¹²

According to Perotti, the second set of theories is related to **socio-political instability**:

A highly unequal and polarized distribution of resources creates strong incentives for organized individuals to pursue their interests outside normal market activities or the usual channels of political representation. Thus, in more unequal societies people are more likely to engage in rent-seeking activities, or other manifestations of socio-political instability, such as violent protests, assassinations, coups d'état, and so on. In turn, socio-political instability discourages investment for at least two kinds of reasons. First, it creates uncertainty about the political and legal environment. Second, it disrupts market activities and labor relations, with a direct adverse effect on productivity.¹³

<http://web.econ.ku.dk/okog/VV/VV-2010/Lecture%20notes/lecture-note-11-vv2010.pdf>. p. 15.

¹² Persson, Torsten; Tabellini, Guido. Is inequality detrimental to growth? Theory and evidence. *National Bureau of Economic Research*. 1991. Cambridge, MA. p. 2.

¹³ Perotti, Roberto. Growth, Income Distribution and Democracy: What the Data Say. *Journal of Economic Growth*, Vol. 1, pp. 149-187. p. 4.

In summary:

Investment and growth increase as socio-political instability decreases; socio-political instability decreases as equality increases; **growth increases as equality increases.**¹⁴

According to Perotti, this approach is advocated by Alesina and Perotti¹⁵, Gupta¹⁶, Hibbs¹⁷, Venieris, and Gupta¹⁸.

According to Alesina, Alberto, and Roberto Perotti, "income inequality increases social discontent and fuels social unrest. The latter, by increasing the likelihood of coups, revolutions, mass violence or, in general, by increasing political uncertainty and threatening property rights, has a negative effect on investment and, consequently, reduces growth"¹⁹.

According to Perotti, the third set of theories is related to "**imperfect capital markets**":

When individuals cannot borrow freely against future income, the initial distribution of resources can have a large impact on the investment pattern of the economy and thus on growth. [...] If

¹⁴ Ibid. p. 4.

¹⁵ Alesina, Alberto and Roberto Perotti. Income Distribution, Political Instability, and Investment. *National Bureau of Economic Research*. 1993.

¹⁶ Gupta, D. The Economics of Political Violence. *Praeger*. New York. 1990.

¹⁷ Hibbs, Douglas A. *Mass Political Violence: A Cross-Sectional Analysis*. Wiley and Sons, New York. 1973.

¹⁸ Venieris, Yiannis P. and Dipak K. Gupta. Socio-Political Instability and Economic Dimensions of Development: A Cross-Sectional Model. *Economic Development and Cultural Change*. 1983.

Venieris, Yiannis P. and Dipak K. Gupta. Income Distribution and Socio-Political Instability as Determinants of Savings: A Cross-Sectional Model. *Journal of Political Economy*. 1986.

¹⁹ Perotti, Roberto. Growth, Income Distribution and Democracy: What the Data Say. *Journal of Economic Growth*, Vol. 1, pp. 149-187. pp. 7-8.

wealth is more equally distributed, more people can invest in human capital and, consequently, growth is higher. If there are fixed costs of investing in education, a dynasty that starts out poor and cannot invest in education will continue to do so generation after generation. [The distribution of income and wealth also affects the intensity of borrowing constraints in an economy. If utility is constrained from below, the poor will not be able to borrow because of the incentive problems that borrowing creates. In this case, the distribution of income and wealth will also determine how many people are close to the lower bound and therefore cannot borrow.²⁰

In summary:

Growth increases as investment in human capital increases; for any degree of capital market imperfection, investment in human capital increases as **equality** increases; **growth increases as equality increases.**²¹

According to Perotti, the view that growth increases as equality increases is advocated by Aghion and Bolton²², Galor and Zeira²³, Banerjee, and Newman²⁴.

²⁰ Ibid. p. 5.

²¹ Ibid. p. 5.

²² Aghion, Philippe and Patrick Bolton. A Trickle-Down Theory of Growth and Development with Debt Overhang. *Review of Economic Studies*, 64, pp. 51-172.1993.

²³ Galor, Oded and Joseph Zeira. Income Distribution and Macroeconomics. *Journal of Economic Studies*. 1993.

²⁴ Banerjee, Abhijit V. and Andrew F. Newman. Occupational Choice and the Process of Development. *Journal of Political Economy*. 1993.

Banerjee, Abhijit V. and Andrew F. Newman. Poverty, Incentives, and Development. *American Economic Review, Papers and Proceedings*. 1994.

Economic growth can have a positive impact on social justice by expanding personal choice and social migration

Douglas Voigt argues that growth broadens people's choices and improves social justice. The Third Way, following Hemerijck, argues that:

Modernization amounts to "an emphasis on the productive function of social policy [...] combining income support and active prevention and integration measures - which not only foster citizens' financial self-sufficiency, but also their autonomy in terms of "human flourishing", which is critically based on what Amartya Sen and Martha Nussbaum have called the "capabilities" given to people and social relations to improve well-being [...] a complementary relationship between this labor market supply policy and economic growth that results in greater social justice.²⁵

High-growth environments effectively subsidize low-growth environments (at least within Germany), leading to migration of those seeking upward social mobility or those who are young and rootless enough to be "activated" in a higher-growth region.²⁶

Economic growth may not have a positive impact on social justice without an active redistribution policy

However, according to Voigt, economic growth may not have an impact on social justice for the disadvantaged:

²⁵ Voigt, Douglas. Economic Growth and Social Justice: Testing a Third Way Assumption on the German Case. *DFG-KollegforscherInnengruppe Postwachstumsgesellschaften*. Germany. 2016. p. 1.

²⁶ *Ibid.* p. 2.

Empirical results suggest that the rate of economic growth does not improve social justice. On the contrary, there is a contradictory relationship between these concepts [...] Without concrete redistribution as an organizing principle of the political economy as a whole, [...] economic growth is meaningless for the most disadvantaged in society, [...] supply-side labor market policy cannot lead to social justice. As implemented in Germany, Third Way social justice has achieved precisely the opposite of what Rawls considers a justifiable institutional order: more advantageous to the more advantaged, less advantageous to the less advantaged.²⁷

Resources to promote solidarity. When the markets and the state are unable to care for the disadvantaged

Economist Heinrich Pesch²⁸ believes that the philosophies that led to free markets, self-interest-oriented capitalism, and socialist class conflict are wrong. For Pesch, solidarity is an essential component of any economic system based on social and economic interdependence in the family, the workplace, between workers, managers, civil society, and global society.

Solidarity and organizational resources. Solidarity economy and collective processes.

Solidarity economy, according to Ethan Miller, is:

An organisational tool that can be used to revalue and make connections between the practices of cooperation, mutual aid, reciprocity and generosity that already exist among us. This tool can

²⁷ Ibid. p. 1.

²⁸ Ederer, Rupert J. *Solidarism: an idea whose time has come*. Extracted from: <https://media.christendom.edu/1976/12/solidarism-an-idea-whose-time-has-come/>

be used to foster collective processes of building diverse, locally rooted and globally connected, ecologically sound and directly democratic economies outside the control of the capitalist market or the state. The solidarity economy is fundamentally different from the capitalist economy and the state socialist economy. Instead of starting with grand theory, it starts with our practices. Rather than demanding a single plan or vision for the economy, it seeks to connect many diverse initiatives in a way that respects their differences and independence. Rather than proposing a single vision of economic organization (how the economy should be structured), the solidarity economy provides us with a model of economic organization, a process by which we can democratically strengthen and create new kinds of economic relations in our communities.²⁹

Solidarity and organizational resources. Solidarity economy and community groups.

Luis Razeto Migliaro presents a series of organizational resources related to solidarity economics:

- Community groups and grassroots organizations organize around a solidarity framework to address their problems and meet their needs.
- People from all social groups who want to develop new business initiatives pursue efficiency and apply social and ethical principles in their activities.
- Environmental groups and organizations who realize that environmental problems are caused by individualistic economic and development practices.

²⁹ Miller, Ethan. *Solidarity Economics. Strategies for Building New Economies From the Bottom-Up and the Inside-Out*. 2004. http://base.socio-eco.org/docs/doc-7377_en.pdf

- Native and indigenous peoples who struggle to recover their identities and find in the solidarity economy a modern economic form through which they can apply and experience values and relationships per their community cultures.
- Entrepreneurs who want to combine efficiency and solidarity and aim to establish new and harmonious models of economic relations in their companies.
- Non-governmental organizations that pursue social and development objectives with the aspiration to contribute with new experiences and initiatives to local, alternative and sustainable development processes.
- Public organizations and local power structures concerned about poverty and unemployment, which perceive the solidarity economy as an effective way of combating them.
- Religious organizations that perceive that a solidarity economy is a new way of doing economy coherent with their spiritual and ethical frameworks, and an effective way of generating spaces for human and social development.
- Intellectuals from various disciplines who seek new answers to the great social problems of our time, new patterns of social change and development, new conceptual paradigms and new relationships between social theory and practice.
- Economists who gain an understanding of the limitations and inefficiencies inherent in the theoretical framework of conventional economics.³⁰

³⁰ Razeto Migliaro, Luis, *What is solidarity economy?* <http://www.luis-razeto.net/content/what-solidarity-economics>

Solidarity and resources. Jeffrey Sachs: rich countries must provide resources to help the poor out of the poverty trap

Jeffrey Sachs³¹ believes that extreme poverty (people earning less than a dollar a day) can be eliminated if richer countries provide some primary capital to the poor to help them out of the poverty trap.

According to Sachs a "poverty trap" exists when extreme poverty blocks all avenues of economic growth.

The greatest tragedy of our time is that one-sixth of humanity is not even on the ladder of development. Large numbers of the extreme poor are caught in the poverty trap, unable by themselves to escape extreme material deprivation. They are trapped by disease, physical isolation, climatic stress, environmental degradation and extreme poverty itself. Although life-saving solutions exist to increase their chances of survival - whether in the form of new agricultural techniques, or essential medicines, or bed nets that can limit malaria transmission - these families and their governments simply lack the financial means to make these crucial investments. The world's poor know the development ladder: they are seduced by images of half the world's opulence. But they are unable to put a first foot on the ladder, so they cannot even begin to climb out of poverty.³²

Sachs' six necessary resources: human, business, infrastructure, natural, institutional, and knowledge

According to Sachs:

³¹ Sachs, Jeffrey. *The End of Poverty: Economic Possibilities for Our Time*. Penguin Press. 2005.

³² *Ibid.* pp. 19-20.

The key to ending extreme poverty is to allow the poorest of the poor to get a foot on the development ladder. The development ladder looms over us, and the poorest of the poor are trapped underneath it. They lack the minimum amount of capital needed to get a foot on the ladder and therefore need a boost to climb the first rung. The extreme poor lack six broad types of capital:

- Human capital: health, nutrition and skills necessary for each person to be economically productive.
- Business capital: machinery, plant and motorised transport used in agriculture, industry and services
- Infrastructure: roads, energy, water and sanitation, airports and seaports, and telecommunications systems, which are critical inputs to business productivity
- Natural capital: arable land, healthy soils, biodiversity and well-functioning ecosystems that provide the environmental services needed by human society.
- Public institutional capital: the commercial law, judicial systems, government services and police that underpin the peaceful and prosperous division of labor.
- Knowledge capital: scientific and technological knowledge that increases the productivity of business production and the development of physical and natural capital.³³

This is the solution:

Foreign aid, in the form of official development assistance (ODA), helps to kick-start the process of capital accumulation, economic growth and rising household incomes. Foreign aid flows through three channels. A small part goes directly to households, mainly for humanitarian emergencies such as food aid in the midst

³³ Ibid. pp. 244-245.

of a drought. Much more goes directly to the budget to finance public investments, and some also goes to private businesses (e.g., farmers) through microfinance programs and other schemes where foreign aid directly finances small private businesses and agricultural improvements.³⁴

Sachs and the Millennium Development Agenda

Following this approach, the United Nations established the Millennium Development Goals to be achieved by 2015:

1. To eradicate extreme poverty and hunger; 2. To achieve universal primary education; 3. To promote gender equality and empower women; 4. To reduce child mortality; 5. To improve maternal health; 6. To combat HIV/AIDS, malaria, and other diseases; 7. To ensure environmental sustainability; 8. To develop a global partnership for development.³⁵

Several countries and institutions participated, such as:

The United Nations, United Nations Development Programme, Millennium Campaign, UN Department of Economic & Social Affairs, World Bank, UNICEF, UN Environment Programme, UN Population Fund, World Health Organization, International Monetary Fund, UN-HABITAT, Food & Agriculture Organization of the United Nations, International Fund for Agricultural Development, International Labor Organization, International Trade Centre, International Telecommunication Union, Joint United Nations Programme on HIV/AIDS, United Nations Conference on Trade and Development, United Nations De-

³⁴ Ibid. p. 246.

³⁵ <https://www.un.org/millenniumgoals/>

velopment Group, United Nations Educational, Scientific and Cultural Organization, United Nations Refugee Agency, United Nations Development Group, United Nations Industrial Development Organization, United Nations Entity for Gender Equality and the Empowerment of Women, Office of the United Nations High Commissioner for Human Rights, United Nations Relief and Works Agency for Palestine Refugees in the Near East, World Food Programme, World Meteorological Organization, World Trade Organization, World Tourism Organization, United Nations Office of Sport for Development and Peace, Regional Commissions.³⁶

According to "The Guardian", the Programme was quite successful: "total lives saved between 2000-2015: 29.7 million; 471 million have been lifted out of extreme poverty; lower-income countries accelerated faster in sanitation, water, maternal mortality, child mortality"³⁷.

In 2015 the targets were partially achieved, so the group launched a new set of targets, Sustainable Development Goals for 2030:

1. No poverty; 2. Zero hunger; 3. Good health and well-being for people; 4. Quality education; 5. Gender equality; 6. Clean water and sanitation; 7. Affordable and clean energy; 8. Decent work and economic growth; 9. Industry, Innovation, and Infrastructure; 10. Reducing inequalities; 11. Sustainable cities and communities; 12. Responsible consumption and production; 13. Climate action; 14.

³⁶ Ibid.

³⁷The Guardian. *Results of the Millennium Development Agenda. How successful have the Millennium Development Goals been?* <https://www.theguardian.com/global-development-professionals-network/2017/mar/30/how-successful-were-the-millennium-development-goals> <https://www.theguardian.com/global-development/millennium-development-goals>

Life below water; 15. Life on land; 16. Peace, justice and strong institutions; 17. Partnerships for the goals.³⁸

Resources to promote subsidiarity

The United Nations, European Community law, and the Maastricht Treaty uphold the principle of subsidiarity: what individuals can achieve through their initiative and effort should not be taken away from them by a higher authority.

Vaclav Havel, along with Desmond Tutu and the Dalai Lama, among others, has been a strong advocate of the need for and value of civil societies. He stated that:

What is a civil society? In the most general terms, we could perhaps describe it as a society in which citizens participate - in many parallel and mutually complementary ways - in public life, in the administration of public goods and in public decisions. The extent, mode and institutional form of this participation depend predominantly on the participants, on their initiative and imagination, even if these are naturally exercised within a certain legal framework. It is thus a society that not only gives ample scope to individual and group creativity as an important component of public activity, but also relies directly on such creativity. The functions of the state and its structures in such a society are limited only to what no one else can perform, such as legislation, national defence and security, the enforcement of justice, etc.³⁹

³⁸ <https://www.undp.org/content/undp/en/home/sustainable-development-goals.html>

³⁹ Havel, Vaclav. *Vaclav Havel's ideas and his conception of Civil Society*. Speech by Vaclav Havel, President of the Czech Republic, on the occasion of the "Symposium on Vaclav Havel's Civil Society". Macalester College, Minneapolis/St.Paul, USA, April 26, 1999. <https://eng.yabloko.ru/Publ/Archive/Speech/gavel-260499.html>

According to Alice Martini and Luca Spataro:

The principle of subsidiarity is first and foremost a philosophical-political principle that guides the establishment of order in society, insofar as it regulates the interaction between bodies and organizations, whether the state and civil society or the different levels of government agencies [...]. The state should intervene in society or in the economy only when the free enterprise resulting from the initiative of private agents - acting individually or in association with one another - is not sufficient to satisfy the needs of the population [...]. It recognizes that the person has an eminently social nature, that he is only realized in association with other persons in primis in the family circle, and that he is naturally oriented toward the common good, of which solidarity is the instrument.⁴⁰

According to Gerd Zeitler:

The principle of subsidiarity focuses on both human self-determination and personal responsibility, making them important guarantors of a prosperous social life. The principle is rooted in social-ethical understanding, whereby larger and more capable social and governmental units should only step in to support smaller and less capable units when the latter's forces are not sufficient to achieve a given vital goal. For example, when individuals, families or groups are overwhelmed with care and support for children, the elderly or the sick. Responsibilities are assigned to units according to their capacities. Each unit commits itself to self-determination and self-responsibility, i.e.: to act autonomously, but will be supported by the next largest unit in case its own resources are not

⁴⁰ Martini, Alice; Spataro, Luca. The principle of subsidiarity and the ethical factor in the thought of Giuseppe Toniolo. *Journal of Business Ethics*. 2018. p. 2.

sufficient for a particular task, thus ensuring that all social and governmental tasks are carried out efficiently and as decentralized as possible where the affected parties and their interests are most closely related.⁴¹

Easterly: subsidiarity as a response to the failure of solidarity

William Russell Easterly questions the impact of international aid for the following reasons. He states that the free nets that foreign aid provides to protect against malaria "are often diverted to the black market, do not reach health clinics or end up being used as fishing nets or wedding veils [...] In Zambia, 70% of beneficiaries did not use the nets"⁴².

Easterly criticizes Sachs' approach:

Economic development comes, not through aid, but through the domestic efforts of entrepreneurs and social and political reformers. While the West agonized over a few tens of billions of dollars of aid, the citizens of India and China increased their own incomes by \$715 billion through their own efforts in free markets. Once aid agencies realize that aid CANNOT achieve overall economic and political development, they might start concentrating on fixing the system that fails to get 12 cent drugs to malaria victims.⁴³

According to Easterly:

⁴¹ <https://gerdzeitler.wordpress.com/economic-subsidiarity/>

⁴² Easterly, William Russell. *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. 2006. Penguin Books. London, UK. p. 23.

⁴³ Easterly, William Russell. *Why Doesn't Aid Work?* Cato Institute. 2006. p. 4.

The West has already spent \$2.3 trillion in foreign aid over the past five decades and still hasn't managed to get 12-cent medicines to children to prevent half of all malaria deaths. The West has spent \$2.3 trillion and still failed to get \$4 bed nets to poor families. The West spent \$2.3 trillion and had not yet managed to get \$3 to every new mother to prevent 5 million child deaths. The West spent \$2.3 trillion and Amaretech is still carrying firewood. It is a tragedy that so much well-meaning compassion has not yielded these results for people in need.⁴⁴

For Easterly, aid agencies lack feedback and accountability, making their operations inefficient.

Banerjee: the failure of solidarity

Abhijit Banerjee and Esther Duflo⁴⁵ respond to the Sachs-Easterly dilemma. They question Sachs's view of the poverty trap:

There will be a poverty trap whenever the potential for income or wealth growth at a very rapid rate is limited for those who have very little to invest, but dramatically expanded for those who can invest a little more. On the other hand, if the potential for rapid growth is high among the poor, and then declines as one gets richer, there is no poverty trap.⁴⁶

In other words, the poverty trap is not solved by external financial aid alone but by more specific, granular, and detailed problem solving on a case-by-case basis. Their views are summarized as follows:

⁴⁴ Ibid. p. 3.

⁴⁵ Banerjee, Abhijit and Esther Duflo. *Poor Economics: A radical re-thinking of how to fight global poverty. Public Affairs.* 2017.

⁴⁶ Ibid. p. 33.

First, the poor often lack critical information and believe things that are not true," such as the benefits of vaccination, the value of education or the actions of politicians.

Second, the poor are responsible for too many aspects of their lives," such as lack of clean water.

Third, there are good reasons why some markets do not exist for the poor, or why the poor face unfavourable prices in them," such as affordable finance for them.

Poor countries are not condemned to failure because they are poor or because they have had an unfortunate history", but they fail because of corrupt politicians, a bad education system, a lack of infrastructure, an overburdened medical system, poor democratic institutions.

Expectations about what people are capable or incapable of doing end up too often becoming self-fulfilling prophecies," as in the cases of students, farmers, nurses, politicians, who don't even try to improve their lives, because of their lack of hope as a result of negative expectations.⁴⁷

Subsidiarity and resources. Amartya Sen: providing capabilities for functioning

For Amartya Sen, to achieve well-being, a person needs to be able to function, and this requires specific capabilities:

Poverty can reasonably be identified in terms of capability deprivation; the focus is on deprivations that are intrinsically significant (as opposed to low income, which is only instrumentally significant). There are influences on capability deprivation - and hence on real poverty - other than low income (income is not the only instrument for generating capabilities). The instrumental rela-

⁴⁷ Ibid. pp. 237-241.

tionship between low income and low capability is variable between different communities and even between different families and different individuals (the impact of income on capability is contingent and conditional).⁴⁸

Capabilities are required for functioning:

The concept of "functionings," which has distinctly Aristotelian roots, reflects the various things a person may value doing or being. The valued functionings may range from the elementary, such as being adequately nourished and free from preventable illness, to highly complex activities or personal states, such as being able to participate in community life and having self-esteem. A person's "capacity" refers to the alternative combinations of functionings that are feasible for him or her.⁴⁹

Sen describes "functioning" in two dimensions: "being" (being well-nourished, living in a good environment, having specific abilities or disabilities, physical and emotional health, having a good education, and the ability to adapt to reality) and "doing" (working, studying, speaking, travelling, voting, eating).

These capabilities provide freedom:

Capability is thus a kind of freedom: the substantive freedom to achieve alternative combinations of functioning (or, less formally put, the freedom to achieve various lifestyles). For example, an affluent person who fasts may have the same achievement of functioning in terms of food or nutrition as a destitute person who is forced to starve, but the former person has a different 'capability

⁴⁸ Sen, Amartya. *Development as Freedom*. Random House, Inc. New York. 1999. p. 87.

⁴⁹ *Ibid.* p. 75.

set' than the latter (the former can choose to eat well and be well nourished in a way that the latter cannot).⁵⁰

According to Sen, capabilities promote personal initiative, personal agency:

Development is about the elimination of various kinds of unfreedom that leave people with few choices and few opportunities to exercise reasoned agency. Using the term "agent" in its older - and "larger" - sense as someone who acts and brings about change, and whose achievements can be judged against his or her own values and goals, regardless of whether we also evaluate them against some external criteria. This paper is especially concerned with the agency role of the individual as a member of the public and as a participant in economic, social, and political actions (ranging from participation in the marketplace to involvement, directly or indirectly, in personal or joint activities in political and other arenas).⁵¹

Sen's capabilities approach focuses on human well-being, on human development, and not only on the economy, giving each person a central role based on their capabilities, as Sen summarizes:

In seeking a fuller understanding of the role of human capabilities, we need to take note of: their direct relevance to people's well-being and freedom; their indirect role in influencing economic production; and their indirect role in influencing social change.⁵²

Initiatives, services, and subsidy groups

⁵⁰ Sen, Amartya. *Development as Freedom*. Random House, Inc. New York. 1999. p. 75.

⁵¹ *Ibid.* p. 13.

⁵² Sen, Amartya. *Human Capital and Human Capability. World Development*. Elsevier Science Ltd. 1997. p. 2.

Ethan Miller presents a list of resources related to subsidiarity:

Worker co-ops, community currencies, libraries (book, seed, tool), revolving credit associations (Roscas), parks, water fountains, housing co-ops, hitchhiking/gifting, shared meals, community supported agriculture (CSA), free exchange of ideas/dialogue, potlucks, Alcoholics Anonymous self-help groups, carpooling/carpooling, parenting, mutual aid collectives, gleanng associations, community land trusts, interest-free loans between friends, spontaneous gifts, consumer co-ops, lost and found, labor barter, volunteer fire companies, volunteer ambulance squads, gardening (and sharing leftover zucchini), seed saving and swapping, self-employment (under certain conditions), hunting, trapping, fishing, berry, mushroom and nut picking, cutting trees for use value on the plot, the land, the sun, life itself (gifts!), open source programming, community development credit unions, doing favors, food banks, lending/borrowing from neighbors and friends.⁵³

Civil economy and subsidiarity. Toniolo: the primacy of the person, the state as guardian

The Italian political philosopher Guiseppe Tonioli is the pioneer of the civil economy based on the principle of subsidiarity:

Focusing on Toniolo's thought, his personalist approach led him to write that the primacy of the person consists in the fact that the moral conscience of the person provides the impetus for the pursuit of the ends to which "one's own dignity and happiness" are linked: "only from this premise can there arise, by irradiation, a

⁵³ Miller, Ethan. *Solidarity Economics. Strategies for Building New Economies From the Bottom-Up and the Inside-Out*. 2004. http://base.socioeco.org/docs/doc-7377_en.pdf

social conscience, namely, "the consciousness of the ends and duties common to all men, and on which the collective good depends" and "the shared ideas, sentiments, and aspirations which impel the constitution and development of groupings in civil society."⁵⁴

According to Toniolo, the state has a watchdog role:

Through the function we have described above [...] of guardianship, the state provides for the common good of persons who have associated themselves in a mediated way, that is, through the ethico-civil society, which is already pre-existing with its hierarchical organism (classes) and with the domiciliary societies (persons and families) that constitute its elements.⁵⁵

Martini and Spataro explain Toniolo's concern that the state could become totalitarian:

Moreover, Toniolo's proposal not only relies on a positive anthropology, emphasizing the value of nature and human potential, but explicitly theorizes a safeguard against all forms of the totalitarian state, identifying it precisely in the sphere of the interests of the person.⁵⁶

Persons can respond to social needs:

⁵⁴ Martini, Alice; Spataro, Luca. The principle of subsidiarity and the ethical factor in the thought of Giuseppe Toniolo. *Journal of Business Ethics*. 2018. p. 7.

⁵⁵ Toniolo, Giuseppe. *Treatise on social economy. Introduction*. In *Opera omnia di Giuseppe Toniolo. Trattato di economia sociale e scritti economici*, edited by the Comitato opera omnia di Giuseppe Toniolo, Vatican City, 1949-1952. p. 86.

⁵⁶ Martini, Alice; Spataro, Luca. The principle of subsidiarity and the ethical factor in the thought of Giuseppe Toniolo. *Journal of Business Ethics*. 2018.

In particular, Toniolo argued that men are capable of responding to the needs that arise from their living together, and history shows that they are capable of establishing organizational forms to cope with problems and improve their living conditions [...] Toniolo's approach aimed above all to defend and champion the cause of "private economic institutions", as is evident in his attention to the economic effects of the structure of the state described above. These considerations are especially relevant if one takes into account the reflections that Toniolo devoted to the defense of the independence of the "organisms of the social body" (collective bodies), the development of the organisms of the private person such as classes, permanent associations, collective property, institutions created for public utility.⁵⁷

The civil economy is aligned with the principle of subsidiarity; civil society takes an active role in assisting the community:

There is the civil welfare model endorsed by the civil economy perspective, which recognizes civil society organizations as active partners in the process of programming interventions and subsequent implementation.⁵⁸

⁵⁷ Ibid. p. 8.

⁵⁸ Zamagni, Stefano. Enhancing socio-economic integration. The civil economy perspective for a participatory society. *Pontifical Academy of Social Sciences*. <http://www.pass.va/content/scienze-sociali/en/publications/acta-participatory-society/zamagni.pdf>. p. 7.

The role of the state in providing essential services, standards, and controls

Luigino Bruni and Stefano Zamagni defend the civil economy view that solidarity requires subsidiarity. According to the civil economy, the role of the state in social welfare is that of initiator, planner, and regulator, but not necessarily that of executor, which depends on other factors such as its economic efficiency:

Is it possible to combine solidarity (equity) and subsidiarity (reciprocity) in a credible and sustainable way? The affirmative answer is to be sought in the folds of the following consideration. The constitutive element of state intervention in a universalist welfare system includes three main duties 1) the definition of a set of social services (as well as their relative codified quality standards) that are guaranteed to all citizens; 2) the setting of rules of access to these services and, therefore, of rules of redistribution necessary to ensure that all citizens can effectively benefit from them; and 3) the exercise of forms of control over the effective allocation of services to individuals. These are the three specific functions of the state-regulator. The task of directly producing services or managing their allocation is not constitutive of the task of the state.⁵⁹

Markets, companies, and the economy as an expression of social capital

Stefano Zamagni explains the notion of "civil economy":

The civil economy paradigm teaches that market trade is not merely an impersonal exchange, but also an exercise of civil virtues [...] Market exchange can build social solidarity when buyers and sellers recognize and embrace the moral foundations of mutually

⁵⁹ Ibid. pp. 5-6.

beneficial trade [...] For the civil economy school, the market, the firm, the economy are themselves the locus of friendship, reciprocity, gratuitousness, and fraternity [...]...] For the school of civil economy, the market, the enterprise, the economy are themselves the place of friendship, reciprocity, gratuitousness and fraternity [...] The economy is civil, the market is life in common, and they share the same fundamental law: mutual aid [...] Note the difference between exchange and mutual aid. In an act of exchange, each party benefits from a transaction that is only possible because it benefits the other. However, neither party must be concerned with the interests of the other. Mutual assistance implies more than this. It implies the intention, on the part of the person assisting, to benefit the person assisted. If the assistance is mutual, these intentions are reciprocal. Again, let us consider the difference between bonding social capital and bridging (or linking) social capital in R. Putnam's sense. Linking social capital refers to the mechanisms that allow the associative capacity of a community to be expressed through interactions with political institutions and firms, thus contributing to the production of public goods and political outcomes in general. Thus, linking social capital, depending on the balance between linking and bonding social capital in a given society, can reinforce desirable public policy outcomes, when the linking type is very abundant, or hinder them, when bonding social capital predominates.⁶⁰

Healthy economies are based on an anthropology of "trust", "mutual advantage" and "happiness" that emphasizes "reciprocity, friendship and mutual assistance or fraternity" as the essence of production and exchange.⁶¹

⁶⁰ Ibid.

⁶¹ Bruni, Luigino and Stefano Zamagni. *La economía civil. Otra idea del mercado*. Editorial Agenda. 2016. Newcastle upon Tyne. United Kingdom.

Adrian Pabst contrasts civil economy with the selfish homo oeconomicus central to Adam Smith's "The Wealth of Nations":

Human beings are more relational, "gift-exchanging animals" who are naturally willing to cooperate for mutual benefit [...] The civil economy shifts the primacy of rights and contracts to the social and civic bonds on which vibrant democracies and market economies depend [...] Instead of free market fundamentalism or bureaucratic statism, it is the people and enterprises of civil society that collectively determine the rules and institutions that govern production and exchange. Politics and business best serve the needs of society when they allow for worker representation in business and the participation of free and democratically self-governing groups and associations in the governance of politics and the economy.⁶²

Pabst sees how global finance capitalism can be replaced by:

A renewed emphasis on the principles of reciprocity and mutuality, which can be translated into policies that encourage the creation of mutualized banks, local credit unions and community-based investment trusts [...] project bonds and the use of instruments such as risk-sharing finance facilities or loan guarantees [...] cooperation between non-profit organizations, social entrepreneurs and government agencies [...] a share of profits that could be automatically reinvested in the social enterprise.⁶³

For Pabst, welfare can be reinvented:

⁶² Pabst, Adrian. Building a Civil Economy. *Open Democracy U.K.* 2012. <https://www.opendemocracy.net/en/opendemocracyuk/building-civil-economy-0/>.

⁶³ Ibid.

The reason that civic participation and mutuality cost less and deliver more is because they cut out the 'middlemen' - the growing layers of gatekeepers, such as managers and bureaucrats, who assess people's eligibility and enforce centrally determined rules. By bringing providers and beneficiaries together, a "civil" welfare model provides services that address people's genuine needs and foster human relationships.⁶⁴

As Luigino Bruni states:

The reward is the necessary link to bind the particular interest to the general interest, and to keep men always oriented to the good [...] Civil economy is an attempt to train [people] to be "sincerely" virtue-loving, to attribute to it also an intrinsic value, based on the attempt to show them that virtue, especially when it is reciprocal has its own logic, a rationality.⁶⁵

The role of civil entrepreneurs

Free markets can by themselves produce social welfare, but they fail to do so in some cases. It is up to the free initiative of individuals and organizations to take an active role:

Only civil entrepreneurs, who in addition to having innovative capacity and being risk-lovers (the two characteristics of the entrepreneur, according to traditional economics), are capable of the truly relational practices necessary to realize a project of this type. In fact, it would be practically impossible to imagine a shared administration project consisting of subjects dragged along by the public administration. Moreover, if we look closely, we realize that

⁶⁴ Ibid.

⁶⁵ Bruni, Luigino. *Il Contributo italiano alla storia del Pensiero*. Economia. 2012.

the civil welfare model takes seriously all the dimensions of the principle of subsidiarity. Until now, this principle has been declined in vertical and horizontal terms, but a third dimension, which has to do with the principle of reciprocity, has never been taken seriously. The principle of subsidiarity emanates from a more fundamental anthropological principle, according to which the human being is more than a person (a distinct and self-sufficient reality); he is above all a person who becomes fully himself only in the context of reciprocal relationships with others. Anchored in this personalist premise, the principle of subsidiarity implies that, given equal levels of efficiency and effectiveness, those institutions with a greater "density" of interpersonal relationships should be preferred. We therefore need an extension of the principle of subsidiarity. It is not enough to state, as the horizontal version of subsidiarity does, that "the state will not do what reciprocity can do"; in a civil welfare perspective we have to add that "the contract will not do what reciprocity can do". With this extension we obtain a substantial enrichment of the principle of subsidiarity.⁶⁶

The value of civil societies

The situation of civil societies worsened under totalitarian regimes. Vaclav Havel has been a strong advocate for the need and value of civil societies:

While a totalitarian system of the communist type can coexist from time to time with private property, and sometimes even with private enterprise, it can never, as a matter of principle, coexist with a developed civil society. Genuine civil society is what is most fundamental to democracy, and totalitarian government can never, by

⁶⁶ Zamagni, Stefano. *Reciprocity, civil economy, common good*. University of Bologna. Italy. <https://www.ordosocialis.de/pdf/Zamagni/RECIPROCITY,%20CIVIL%20ECONOMY.pdf>.

definition, be reconciled with it. What, in fact, is a civil society? More broadly, we might describe it as a society in which citizens participate - in many parallel and mutually complementary ways - in public life, in the administration of public goods and in public decisions. The extent, mode and institutional form of this participation depend predominantly on the participants, on their initiative and imagination, even if these are naturally exercised within a certain legal framework. It is thus a society that not only gives ample scope to the creativity of individuals and groups as an important component of public activity, but also relies directly on this creativity. The functions of the state and its structures in such a society are limited only to what no one else can perform, such as legislation, national defence and security, the enforcement of justice, etc.⁶⁷

Civil organizations promote the common good

Rupert Ederer⁶⁸ explains Pesch, how solidarity generates the principle of subsidiarity, the need for people and organizations to implement an economic reality driven by solidarity. Subsidiarity defends the right and freedom of individuals, families, groups, organizations, and even the state to look after the common good of society. This is opposed to two extremes: that the state controls and eliminates the freedom of individuals, or the other extreme, that a private organization, such as a monopoly, for example, obstructs the action of other members of society, including the state. Subsidiarity defends people's freedom to create groups that defend their access to the common good,

⁶⁷ Havel, Vaclav. *A Speech by Vaclav Havel President of the Czech Republic. on the Occasion of "Vaclav Havel's Civil Society Symposium"*. Macalester College, Minneapolis/St.Paul, U.S.A. 1999. <http://eng.yabloko.ru/Publ/Archive/Speech/gavel-260499.html>

⁶⁸ Ederer, Rupert J. *Solidarism: an idea whose time has come*. Extracted from: <https://media.christendom.edu/1976/12/solidarism-an-idea-whose-time-has-come/>

such as trade unions. Subsidiarity advocates that people organize their actions in organizations such as the Red Cross, cooperatives, agricultural organizations, and credit unions to promote the welfare of society.

According to Stefan Gosepath⁶⁹, the principle of subsidiarity is based on the idea that the whole of social life is not an end in itself but is ordered toward the person's self-perfection. Various social entities, starting with the family, and others close to the person, contribute to this goal. The principle of subsidiarity works well with free-market economies; it does not align with collectivism, nor does it fit well with large economic conglomerates.

The United Nations, European Union law, and the Maastricht Treaty uphold the principle of subsidiarity.

Conclusion: resources to promote solidarity and subsidiarity

The analysis of solidarity and subsidiarity leads to a critical conclusion: the role of social justice is to provide the necessary resources to promote social well-being. The role of social justice is not to make people dependent on the state to promote clientelism. Distributionism drives the whole society into poverty because it deprives of resources to the promoters of economic growth.

In this sense, the following discussion is fundamental: leadership promotes resources that benefit all members of society. The role of National Intellectual Capital reflects leadership, i.e., the modern political economy seems to recognize that to promote economic growth and social justice, society needs leadership.

⁶⁹ Gosepath, Stefan. *The Principle of Subsidiarity*. <https://www.researchgate.net/publication/227243749>

III. A LEADERSHIP CULTURE PROVIDES RESOURCES THAT PROMOTE ECONOMIC GROWTH AND SOCIAL JUSTICE

Introduction

The purpose of this chapter is to analyze how a leadership culture provides resources, National Intellectual Capital, promoting economic growth and social justice.

According to Geert Hofstede¹, the prestigious expert in cultures and organizations, we all carry a “software of the mind”, what we call “culture”, which is formed on values.

According to Hofstede:

Every person carries within him or herself patterns of thinking, feeling, and potential acting that were learned throughout the person’s lifetime.²

Hofstede calls these patterns: “software of the mind”:

The programming starts within the family; it continues within the neighborhood, at school, in youth groups, at the workplace, and in the living community. A customary term for such mental software is ‘culture’³.

The core of culture is formed by values. Values are broad tendencies to prefer certain states of affairs over others. Values are feelings with an added arrow indicating a plus and a minus side⁴.

¹ Hofstede, Geert; Hofstede, Gert Jan. *Cultures and Organizations: Software of the Mind*. McGraw-Hill Education. 2010. New York. p. 4.

² Hofstede, Geert; Hofstede, Gert Jan. *Cultures and Organizations: Software of the Mind*. McGraw-Hill Education. 2010. New York. p. 4.

³ Ibid. p. 5.

⁴ Ibid. p. 9.

As Hofstede explains, values deal with opposite pairings such as individualism versus collectivism, high versus low power distance, masculinity versus femininity, high versus low uncertainty avoidance, evil versus good, dirty versus clean, dangerous versus safe, forbidden versus permitted, decent versus indecent, moral versus immoral, ugly versus beautiful, unnatural versus natural, abnormal versus normal, paradoxical versus logical, and irrational versus rational⁵.

Hofstede developed cross-cultural indices based on an extensive database produced by IBM with cultural dimensions in 50 countries.

Volume 2 introduces a third culture: a leadership culture. A leadership culture reflects how a person and community have wisdom, transcendence (the capacity to appreciate and create goodness, beauty, truth) and love, higher values, relationships, meanings, discernment, and the power to transform, heal and perform social actions.

The social impact of modern cultural values. Statistical analyses

Individualist and collectivist cultural values have controversial correlations with social outcomes; leadership cultural values have mostly positive correlations with social outcomes.

The following statistical analysis has been extracted from my third doctoral dissertation: Ph.D. Humanities for the contemporary world. Specialization in Philosophy (summa cum laude, 2020). “Epistemological Analysis of Strategic Management and Related Sciences. How Realism Promotes Leadership”. Universitat Abat Oliba. Spain.

The statistical analysis is based on the freely shared database of the Institute for Comparative Survey Research, which presents cultural values in 60 countries.

This data is presented in the World Values Survey (WVS)⁶. The WVS website states that they are:

⁵ Ibid. p. 9.

⁶ Comparative Survey Research Institute. *World Values Survey*. www.worldvaluessurvey.org 2016.

A global network of social scientists studying changing values and their impact on social and political life, led by an international team of scholars, with the partnership and secretariat of WVS based in Stockholm, Sweden. The survey, which began in 1981, seeks to use the most rigorous and highest quality research designs in each country. The WVS consists of nationally representative surveys conducted in nearly 100 countries containing almost 90% of the world's population, using a common questionnaire. The WVS is the largest non-commercial, cross-national, time-series research on human beliefs and values ever conducted, and currently includes interviews with nearly 400,000 respondents. In addition, the WVS is the only academic study that covers the full range of global variation, from very poor to very rich countries, in all major cultural areas of the world.

The WVS aims to help scientists and policy makers understand changes in people's beliefs, values and motivations around the world. Thousands of political scientists, sociologists, social psychologists, anthropologists, and economists have used these data to analyze issues such as economic development, democratization, religion, gender equality, social capital, and subjective wellbeing. These data have also been widely used by government officials, journalists, and students, and groups at the World Bank have analyzed the links between cultural factors and economic development.⁷

⁷ Ibid.

Christian Welzel⁸ analyzed the WVS and published his findings in *Freedom Rising: Human Empowerment and the Quest for Emancipation*⁹. Welzel takes a different approach from this book, as his analysis does not consider the three main sets of cultural values.

The dependent variables of the statistical analyses: social outcomes

The statistical analyses associate the cultural values of the WVS with six social outcomes:

- GDP per capita¹⁰ (Gross Domestic Product) as an indicator of wealth.
- The HDI¹¹ (Human Development Index), published by the United Nations Development Programme, incorporates per

⁸ Christian Welzel is Professor of Political Culture Research at the University of Leuphana in Lueneburg, Germany. He is also President (emer.) and Vice-President of the World Association of Value Surveys and Foreign Consultant of the Laboratory for Comparative Social Research at the National Research University/Higher School of Economics in St. Petersburg and Moscow, Russia. His research focuses on human empowerment, emancipatory values, cultural change and democratization. He has received several large grants and is the author of over one hundred academic publications. In addition to his recently published *Freedom Rising* (2013 at CUP, winner of the Alexander George Prize and the Stein Rokkan Prize, see www.cambridge.org/welzel), his most recent books include *The Civic Culture Transformed* (with Russell J. Dalton, at CUP 2014); *Democratization* (with Christian Haerpfer, Ronald Inglehart, and Patrick Bernhagen, at OUP 2009); and *Modernization, Cultural Change and Democracy* (with Ronald Inglehart, 2005 at CUP).

⁹ Welzel, Christian. *Freedom Rising: Human Empowerment and the Quest for Emancipation*. Cambridge University Press. 2014. New York.

¹⁰ *GDP per capita*. World Bank. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?view=map> 2017. Washington, D.C.

¹¹ The Human Development Index (HDI). United Nations Development Programme. *Human Development Reports*. <http://hdr.undp.org/en/content/human-development-index-hdi> 2017. New York.

capita income, life expectancy, and education. Amartya Sen and Mahbub ul Haq developed the HDI¹².

- The Heritage Foundation and The Wall Street Journal produce the Index of Economic Freedom¹³ to measure the degree of economic freedom in the world's nations. The index covers 12 freedoms in 186 countries. Rule of Law: property rights, absence of corruption. Limited government: fiscal freedom, government size/spending. Regulatory efficiency: business freedom, labor freedom, monetary freedom. Open markets: trade freedom, investment freedom, financial freedom.
- Transparency International develops the CPI¹⁴ (Corruption Perceptions Index), which ranks countries "by their perceived

¹² According to the United Nations Development Programme, Human Development Reports: "The human development approach, developed by economist Mahbub Ul Haq, is anchored in Amartya Sen's work on human capabilities, often framed in terms of whether people are able to "be" and "do" desirable things in life".

¹³ *The Index of Economic Freedom*. The Heritage Foundation and The Wall Street Journal. Their website: <http://www.heritage.org/index/about> states: "Today we live in the most prosperous time in human history. Poverty, disease, and ignorance are receding around the world, due in large part to the advance of economic freedom. In 2017, the principles of economic freedom that have driven this monumental progress are once again measured in the Index of Economic Freedom, an annual guide published by The Heritage Foundation, Washington's No. 1 think tank. For more than twenty years, the Index has offered thoughtful analysis in a clear, user-friendly, and straightforward format. With new resources for users and a website tailored for research and education, the Index of Economic Freedom is poised to help readers track more than two decades of progress in economic freedom, prosperity, and opportunity and promote these ideas in their homes, schools, and communities." 2017. Washington, D.C., New York.

¹⁴ *Corruption Perceptions Index*. Transparency International. Their website: <https://www.transparency.org/research/cpi/overview> states: "From the villages of rural India to the corridors of power in Brussels, Transparency International gives a voice to the victims and witnesses of corruption. We work together with governments, businesses and citizens to end the abuse of

levels of corruption, as determined by expert assessments and opinion polls". The CPI currently ranks 177 countries "on a scale from 100 (very clean) to 0 (very corrupt)".

- The World Bank Institute presents the Knowledge Index: The Knowledge Index is the average of a country's or region's performance rankings in three areas of the so-called Knowledge Economy, namely education, innovation and information, and communication technologies." It measures: "secondary enrollment: students enrolled at the secondary education level; tertiary enrollment: students enrolled at the tertiary education level, i.e. college, university or technical school; R&D researchers: people engaged in research and development; patent applications: patent applications granted by the United States Patent and Trademark Office (USPTO); scientific and technical journal articles: articles published in journals in physics, biology, chemistry, chemistry, mathematics, clinical medicine, biomedical research, engineering and technology, and earth and space sciences; telephones: main telephone lines and mobile phones; computers: personal computers, i.e., stand-alone computers designed for use by a single person; Internet users: persons with access to the World Wide Web.¹⁵

power, bribery and backroom deals. As a global movement with a vision, we want a world free of corruption. Through chapters in more than 100 countries and an international secretariat in Berlin, we lead the fight against corruption to turn this vision into reality." 2017. Berlin, Germany.

¹⁵ *The Knowledge Index*. World Bank Institute. World Bank. According to their report: "The World Bank Institute's Knowledge for Development Program (K4D) helps client countries build their capacity to access and use knowledge to strengthen their competitiveness and increase their economic and social well-being. The program works with clients to design and develop realistic and achievable knowledge-based development strategies. It helps countries assess how they compare with others in their ability to compete in the knowledge economy and to identify appropriate policies to help them achieve their goals. K4D also offers recommendations for policy reform on

- John F. Helliwell, Richard Layard, and Jeffrey D. Sachs present the 2016-2018 Happiness Rankings in the *World Happiness Report*¹⁶, which evaluates 156 countries by their levels of happiness, using six metrics to produce rankings of residents' well-being: freedom, generosity, income, trust, healthy life expectancy, social support, perception of corruption.

The independent variables: individualist, collectivist and leadership cultural values

The classification in the survey of the three sets of cultural values, individualism, collectivism and leadership, is a critical part of this statistical analysis.

According to Hofstede, individualism versus collectivism refers to the relationship between the individual and the group. The fundamental question that individualism addresses is the degree of interdependence that society maintains among its members. It has to do with whether people's self-image is defined in terms of 'I' or 'we':

- **Individualism** pertains to societies where the ties between individuals are loose: everyone is expected to look after themselves and their immediate family¹⁷.
- **Collectivism** pertains to societies in which people from birth onward are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty¹⁸.

the knowledge economy accompanied by complementary advice on what the country needs to do to develop appropriate capacity to deliver on these policies." 2017. Washington, D.C.

¹⁶ Helliwell, John F, Layard, Richard, and Sachs, Jeffrey. *World Happiness Report 2019*. Sustainable Development Solutions Network. 2019. New York..

¹⁷ Ibid. p. 92.

¹⁸ Hofstede's Perspectives. <https://www.hofstede-insights.com/country-comparison/the-usa/>

The criteria for classifying cultural values as individualist considers their connection to utilitarian ethics, classical economics, and corporate social responsibility oriented to creating shareholder value. In this sense, a value that reflects the pursuit of utility, pleasure, power, economic freedom, and economic success is classified as an individualist. These cultural values reflect the need for power to survive and succeed in a society without rights and justice (collectivism), no values (leadership), the importance of personal success, personal economic progress, political power, and military power.

The criteria to classify cultural values as collectivist consider their connection to the ethics of rights and justice, a collectivist political economy, and normative corporate social responsibility. Such cultural values reflect the pursuit of collectivism, universalization, democratic institutions, the state's central role, human rights and justice, equality, non-discrimination, freedom, the rule of law, pluralism, and the effort to build a perfect ideal world.

The criteria to classify cultural values as leadership considers the relevance of the creation of richer knowledge, a search for wisdom, not only based on sensible information or rationality: it considers the impact of dimensions of a realist phenomenology such as conscience, human relationships, personal and community values, the value of each person and community, the value of life, family, spiritual values, greatness, and trust. It considers the impact of dimensions of realistic metaphysics such as transcendence, engagement with the higher self, a social mission and vision, entrepreneurship, building a better world. It considers the impact of religious dimensions, especially a personal relationship with the creator, and its impact on daily life, connection with the golden rule. It considers the ability to make meaningful decisions based on discernment. It considers the impact of spirituality on the healing and transformation of persons and communities. These cultural values build leadership in the individual and community with the fostering of value ethics, virtues, social ethics; they foster a political economy that empowers economic growth and social justice, subsidi-

arity and solidarity, based on human and social capital as well as institutions; they foster entrepreneurial success based on intellectual capital, knowledge, relationships, unique resources.

Findings from the statistical analysis

Table 2 summarizes the results of the linear correlation statistical analysis.

Table 2 Results of the linear correlation analysis

Cultural values	Individualism	Collectivism	Leadership
Positive correlation factors (greater than 0.3)	26	16	73
Negative correlation factors (lower than -0.3)	94	54	9
Average of all correlation factors	-0.12	-0.18	0.11

Source. Stegmann, Juan Pablo. Doctoral dissertation. Ph.D. Humanities for the contemporary world. Specialization in Philosophy. *Epistemological Analysis of Strategic Management and Related Sciences. How Realism Promotes Leadership*. Universitat Abat Oliba. Spain

Table 2 shows that individualist cultural values correlate positively and negatively with social outcomes. Negatively correlated factors (94) outnumber positively correlated factors (26).

Collectivist cultural values correlate positively and negatively with social outcomes. Negatively correlated factors (54) outnumber positively correlated factors (16).

Cultural values related to leadership have a substantial prevalence of positive correlating factors (73) over negative ones (9).

These statistical correlation analyses provide interesting insights.

They provide evidence of the limitations of individualism and collectivism since their negative correlations far outweigh the positive ones.

They provide evidence of the strength of leadership, as most of the correlations with social outcomes are positive, and the few negative ones have small correlation factors.

Limitations of the statistical analysis

The statistical analysis presented in above has limitations.

A first limitation is that the variables of the World Values Survey were designed with a different conceptual orientation, more focused on individualism and collectivism and not on leadership.

A second limitation is that the three sets of cultural values may not be entirely separate, and the ranking of values in each culture may not be evident in some cases, depending on how the questions have been formulated.

A third limitation is the sample size: 60 countries is a small sample, especially for data mining which would require larger samples.

A fourth limitation is the number of questions in each set of cultural values: the highest number of questions is classified as leadership, followed by individualist, and finally collectivist. However, this factor should not affect the results, focusing on the variables with the highest correlation: many leadership variables do not have a relevant correlation factor; consequently, they should not distort the results. Along with this, many questions are a repetition of the same theme. For example, the level of trust in government, police, congress, and other similar questions refer to the theme of trust in civic organizations; therefore, many variables should be considered as one.

For these reasons, the numerical results should be considered with caution.

A leadership culture has a positive impact on the political economy

Each person and organization's leadership positively impacts the political economy, promoting economic growth and social justice.

Leif Edvinsson argues that a nation's success depends on its National Intellectual Capital, composed of human capital, social capital, renewal capital, and process capital.

Leaders enhance human capital by helping to build better knowledge, wisdom, information, ideas, research, creativity, innovation, entrepreneurship, competencies, skills, organizational knowledge, labor productivity, dialogue, social and personality attributes, values, motivation, interdisciplinary science, education, health, life expectancy.

Leaders enhance social capital by creating relationships and social networks with norms of reciprocity and goodwill. The leadership of some individuals encourages others to change their behaviors and act with leadership, generating new norms and cooperative behaviors, reducing transaction costs and minimizing the agency problem, and promoting growth and prosperity.

Leaders enhance institutions, legal systems, constitutional provisions, rules and regulations, law enforcement, property rights, and political structures, reinforce social behaviors, and help resolve institutional constraints.

Leaders enhance culture, generating collaboration and trust; shared values and norms of social behavior and norms of social conduct expressed in personal relationships, vertical and horizontal partnerships; a common sense of "civic" responsibility, shared social norms, sense of community, reciprocity, mutually beneficial cooperation, altruism, emotional support; cultural values influence decisions, promote entrepreneurship; frugality has a positive correlation with a national savings rate; culture impacts attitudes toward hard work, attitudes toward government redistribution, welfare, health care, education, rule of law, responsibility, personal effort, morality, reduction of free riding and corruption, effectiveness of institutions.

If in the prisoner's dilemma game theory model, the first player believes that the other players would act with leadership, then the second player's cooperation strategy would be reasonable, and he would

cooperate, and so would the rest of society. This is true in all dimensions of political economy: the leadership of some people would encourage others to change their behavior and act with leadership as well.

Leaders reduce transaction costs and minimize the agency problem, reduce information asymmetry, lower information cost, lower law enforcement cost, lower cost as a result of bribery and corruption, lower cost of transformation, return on investment, promoting investment, social entrepreneurship, social innovation, social change, business opportunities, growth and prosperity.

Leaders promote a culture that welcomes investors, goodwill, civic and political freedoms, internationality, trade intensity, social and educational equality, knowledge sharing, and organizational resources.

In addition, leaders enhance other forms of capital that promote economic growth and social justice and reduce populism.

Leaders enhance renewal capital and process capital by promoting transcendence (beauty, goodness, truth) and the capacity to deal with suffering, which generates entrepreneurship.

Leaders enhance higher values (humanism, justice, law), promoting greatness and altruism.

Leaders enhance wisdom and discernment, give meaning to life, and promote better decision-making criteria.

Leaders empower personal and social transformation, promoting social actions, and driving social change.

When neither markets nor the state can meet the needs of the disadvantaged, solidarity and subsidiarity, come to the rescue. However, neither solidarity, subsidiarity, nor personal action to help the disadvantaged would exist if society lacked leadership.

The leadership of each person and community promotes economic growth and social justice and reduces populism

The resources provided by leaders positively impact the political economy, promoting economic growth and social justice.

Decision-making capacity involves goals, strategies (resources and actions), and results.

The main drivers of economic growth, the National Intellectual Capital, are parts of the strategies based on resources.

The main drivers of social justice, solidarity and subsidiarity, are part of the strategies, based on actions.

The next pages investigate how the resources provided by leaders positively impact the political economy.

Figure 3 is the roadmap for this chapter.

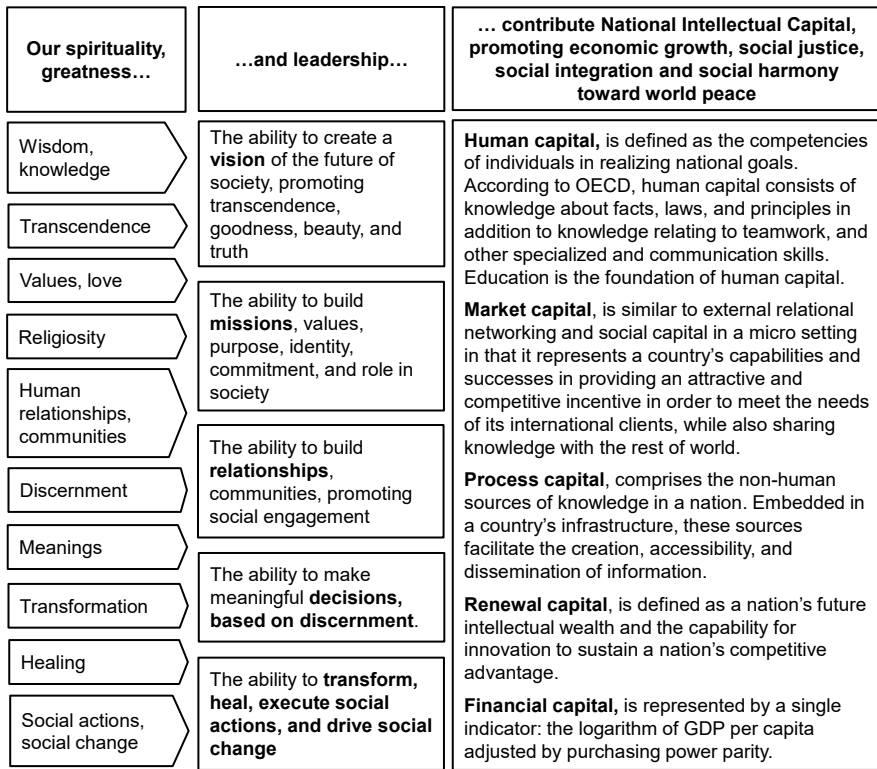


Figure 3 A leadership culture promotes National Intellectual Capital, an engine of economic growth and social justice

1. Leaders contribute with the ability to create a vision of the future of society, promoting transcendence and love, empowering National Intellectual Capital

National Intellectual Capital is empowered by:

- A vision based on our ability to create personal and community knowledge, empowering human capital.
- A vision based on our ability to help people and communities transcend, appreciate and build goodness, beauty, truth, and love, build a better world, and empower human capital.
- A vision based on our power to promote presence, values, greatness, and love, connecting us to reality, promoting empathy, sensitivity, understanding human needs, and empowering social capital.
- A vision based on our capacity to experience the presence of God (for religious persons), generating a learning mechanism based on the interaction between God and us, a vision that reflects the Trinity (for Christians), perfecting reality, a vision of a society that cooperates with God's creation, an expression of His goodness, beauty, truth, love, empowering National Intellectual Capital.
- A vision based on our capacity to provide meaning to human existence, showing how personal suffering can trigger a vocation to help others overcome suffering, empowering National Intellectual Capital. A person who overcame abuse can develop a personal vision to help others who suffered abuse. People with addictions who overcame them can develop a vision to help other addicts out of their torment.
- A vision based on our power of discernment, the fruit of our interaction with God, knowing his vision, empowering National Intellectual Capital.

- A vision based on our power to transform reality, to create a better future, empowering National Intellectual Capital; based on our power to transform people and communities; to create, recreate, perfect, reform, purify, enlighten; to unite, integrate, love, cooperate, simplify, liberate; to give life, empower, energize, strengthen, discover, develop; to restore our likeness to God, likeness to the Trinity (for Christians); to develop virtues.
- A vision based on our power to produce spiritual, emotional, and physical health, empowering human capital.
- A vision based on our power to execute social actions, drive social change, empowering social capital.

2. Leaders contribute with the ability to build missions, values, purpose, identity, commitment, and roles in society, empowering National Intellectual Capital

National Intellectual Capital is empowered by:

- A mission oriented to realizing the vision and ideal toward beauty, goodness, truth, and love provides greatness, energy, and motivation to positively impact society, empowering human capital.
- A mission based on conscience, generating higher values as described by Scheler, justice, law, aesthetics, truth, positively impacting the community, empowering National Intellectual Capital.
- A mission based on relationships produced by values, on our ability to promote empathy, compassion, collaboration with community members, and transformation of ourselves individually and collectively, empowering social capital.
- A mission that arises from our collaboration with God's mission (for religious persons), to perfect the world, empowering human, social and structural capital.

- A mission that arises from biblical spirituality (for Judeo-Christians), knowing and loving God leads the person to follow him, to be part of his mission, his values, to focus on the community and to establish the Kingdom of God, becoming his instrument, assuming the missionary role of the Spirit, Isaiah 6:1-3 and in Luke 4:18: "The Spirit of the LORD is upon me, because the LORD has anointed me; he has sent me to bring good news to the afflicted, to bind up the brokenhearted, to proclaim liberty to the captives, release to the prisoners. To proclaim a year of favor from the LORD and a day of vindication from our God; to comfort all who mourn; to give to those who mourn in Zion a diadem instead of ashes, to give them the oil of gladness instead of mourning, a glorious robe instead of a faint spirit," empowering National Intellectual Capital.
- A mission based on our ability to promote discernment, based on spiritual exercises, knowing and loving God (for religious persons), following him, being part of his mission, his values, focusing more directly on the community, and becoming its instrument to help others, empowering National Intellectual Capital.
- A mission based on our ability to share human experiences, our existence, our interpretations of reality, understanding the suffering of others, interactions, dialogue, interpretations of reality, and empowering social capital.
- A mission based on our power to process suffering can lead us to value reality, value simple things, value others, understand the suffering, develop empathy, build love, value community, friends, and family, and empowering National Intellectual Capital. Living by our values can be risky: it can be painful to put altruistic values first, and postponing lower, more pleasurable values may require sacrificing pleasure and comfort.

- A mission based on our power to promote the transformation of persons and communities, empowering National Intellectual Capital; the power to create, recreate, perfect, reform, purify, enlighten; the power to unite, integrate, love, cooperate, simplify, liberate; the power to give life, empower, energize, strengthen, discover, develop; the power to restore our likeness to God, likeness to the Trinity (for Christians); the power to develop virtues; the power to heal.
- A mission based on our ability to promote social actions, promote social change, empowering National Intellectual Capital.

3. Leaders contribute with the ability to build communities, and relationships, promote social engagement, empowering National Intellectual Capital

National Intellectual Capital is empowered by:

- Relationships developed based on sharing a vision and mission with the community, shared knowledge, universal truths, shared ideals, shared awareness, common perceptions, common sensitivities, communication, promoting social commitment, and empowering social capital.
- Relationships developed based on sharing transcendence, sharing the desire to become agents of creation of goodness, beauty, truth, and love, promoting social cooperation, social development, and empowering social capital.
- Relationships developed based on sharing higher values, justice, law, aesthetics, truth, motivation to serve the community, and empowering social capital.
- Relationships developed based on discovering the individual's value and our capacity to love others. God molded us all (for religious persons). We reflect his goodness, beauty, truth, love, and empowering social capital.

- Relationships developed based on our empathy, and our ability to understand the needs of others and work collaboratively to solve them, empowering social capital.
- Relationships developed based on our ability to discover community value, share the desire to promote social integration, and empower social capital.
- We build our relationship with God (for religious persons) and with society, acting on values that lead us to express His perfections, collaborate with God, and transform reality, making reality more perfect, more beautiful, and more useful for humanity, so that it may be an expression of God's goodness, beauty, truth, and love, through our daily work, as engineers, doctors, artists, as parents, as educators, as friends, empowering social capital.
- We build our relationship with God (for religious persons) and with society, acting on the values that lead us to exercise our capacity to have our vocation, our distinctive role, within our communities, reflecting the perfections that exist in God, to perfect ourselves individually and as communities, to help us develop all our personal and community dimensions, and to perfect the world, empowering social capital.
- We build our relationship with God (for religious persons) and with society, as the efficient cause relates to its effect; as the maker relates to the thing he made, as the craftsman, the manufacturer, to the things he built. Those things exist because the craftsman, the maker, created them, empowering the social capital.
- We build our relationship with God (for religious persons) and with society, as the formal cause is related to the form of the created thing, as the painter builds a masterpiece based on the form he created in his mind and transferred to the canvas, empowering social capital. The form we have was first created in

the mind of God and transferred to us, the creatures. The universe, the stars, the earth, the animals, and we human beings were first in the mind of God as our formal cause.

- We build our relationship with God (for religious persons) and society as the final cause of all creation. In all our activities, we have goals, and those goals seek goodness, beauty, truth, love, and empowering social capital. God is the supreme source of all goodness, beauty, truth, and love, so He is our ultimate goal, our final cause. We may believe that our goals are one specific good, beauty, truth, and love, but we don't realize that we seek God more than that goal, as the ultimate goodness, beauty, truth, and love.
- We build our relationship with God (for religious persons) and with society, acting on values that lead us to develop and perfect the social reality, since God is social, exercising our capacity to express the Trinity of God (for Christians), His community life, helping others to know God and to build relationships with Him and with each other, empowering social capital.
- We build our relationship with God (for religious persons) and with society, acting on values that lead us to exercise our capacity to encounter other people, know others, love them, help them, carry out social actions, create communities, define social roles, strengthening social capital.
- Relationships developed based on sharing our discernment, seeking the best for society, relationships based on spiritual exercises that lead to an encounter between the creator-creature and others, empowering social capital.
- Relationships developed based on shared meanings, shared sensitivity, shared suffering, the need to connect with others in times of pain, supporting those who suffer, and empowering social capital. Suffering without community support can be devastating and overwhelming; people can fall into despair and

depression. Relationships with others can generate faith, hope, and understanding.

- Relationships developed by working in teams with people capable of transforming reality, healing communities, promoting social action, driving social change, and empowering social capital.
- Relationships developed by working with communities that need our power of transformation, empowering social capital.

4. Leaders contribute with the ability to make meaningful decisions based on discernment, empowering National Intellectual Capital

National Intellectual Capital is empowered by:

- Objectives, strategies, resources, and execution based on all possible knowledge, personal and community, in all possible human dimensions, universal truths, rationality, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution promote the creation of organizational knowledge, competencies, skills, research, creativity, innovation, education, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution oriented toward transcendence, perfection, goodness, beauty, truth, love, becoming creators of transcendence, improving reality, being useful to humanity, innovators, entrepreneurs, building a better society, and empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution based on presence, values, greatness, relationships, love.
- Objectives, strategies, resources, and execution promoting the creation of personal and community knowledge, personal awareness, and intersubjectivity.

III. A Leadership Culture Provides Resources that Promote EG and SJ101

- Objectives, strategies, resources, and execution based on higher values: justice, law, aesthetics, truth, social inclusion, cooperation, solidarity, the common good, pacification, harmonization, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution based on human values, which lead to connecting with others, understanding their needs, and foresee solutions with social sensitivity; which lead to developing empathy and motivation to serve the community; which lead to discovering the value of the individual, the dignity of the person, the value of the community, the value of creation; which lead to promote personal and social integration, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution based on shared values and norms of social conduct, personal relationships, trust, mutually beneficial social cooperation, integration, altruism, positive personal interaction, goodwill, "civic" responsibility, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution promote ethical values, reducing transaction costs, the agency problem, information asymmetry, lower information cost, lower cost of law enforcement, lower cost of bribery and corruption, lower cost of transformation, return on investment, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution promote cultural values of collaboration and trust, fostering civic virtue, reciprocity, altruism, social norms, solidarity, community, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution promote cultural values of hard work, innovation, entrepreneurship, savings, personal effort, morality, and reduction of parasitism, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution promote cultural values of civic and political freedoms, internationality,

commercial intensity, business opportunities, welcoming investors, empowering National Intellectual Capital.

- Objectives, strategies, resources, and execution promote cultural values of social equality, which influence attitudes to work on welfare, health care, education, social entrepreneurship, social innovation, social change, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution based on the presence of God (for religious persons), on the relationship with God, generating a learning process especially rich in moments of challenge, in which personal discernment is put to the test, in which interaction with God becomes crucial, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution based on the exercise of our spirituality, reviewing our life, discovering God as a source of life and happiness (for religious persons), producing a personal transformation, driven by the love of God, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution based on our journey, an encounter between the creator-creature, a growing affection, a dialogue in which God enriches the wisdom of each one (for religious persons), heals, energizes, each one finds what God wants from each one, mission, values, purpose, toward a better world, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution based on a personal relationship with God (for religious persons), sharing his mission to establish the Kingdom of God (for Christians), becoming his instruments to help others, collaborating with God: God becomes a guide, leader, companion, in a dialogue in which God enriches the wisdom of all, heals, energizes, all find what God wants of all, mission, values, purpose, path, to guide

III. A Leadership Culture Provides Resources that Promote EG and SJ103

the future steps of all, in practical spirituality, in the practice of mercy, empowering National Intellectual Capital.

- Objectives, strategies, resources, and execution considering the value of relationships, social networks, empathy, understanding the suffering of others, empowering National Intellectual Capital; valuing the community, because without the support of the community, without the support of a higher being, the reality can become devastating, overwhelming, people can fall into despair and depression.
- Objectives, strategies, resources, and execution fostering relationships, social commitment, creation of teams, workgroups, transformation communities, transformation process units with diverse people willing to transform, communities that need that power of transformation, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution by building relationships with people oriented to social action, building teams, working groups, communities active in social enterprises.
- Objectives, strategies, resources, and execution based on the motions of the soul, consolation, and desolation. Suffering can be part of discernment, as it can generate the sensitivity to make wise decisions, empowering National Intellectual Capital. A right decision can lead to desolation, such as the anxiety of giving up money to help others, and the person must be willing to accept it. A wrong decision can lead to consolation, such as getting into drugs to have a good time, and a person must be willing to accept not getting into drugs.
- Objectives, strategies, resources, and execution based on the meaning of human existence, the past, the present, and the future, involving the whole society, empowering National Intellectual Capital.

- Objectives, strategies, resources, and execution promoting institutions, rules of the game, organizations, good social behaviors, habits, customs, conventions, social structures, social actors, associations, emotional support, norms that reduce transaction costs, the agency problem, information asymmetry, lower information cost, lower law enforcement cost, eliminating bribery and corruption, lower transformation cost, improving return on investment, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution promoting institutions, predictable good behaviors; leadership is required as institutions do not necessarily cover all aspects necessary to ensure the success of individuals and communities, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution influence attitudes toward the rule of law, democratic accountability, influencing the belief in the importance of personal effort, morale, and institutions' effectiveness, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution by reducing the opportunists who may take advantage of institutions' limitations, reducing the population's adverse reaction, who may prefer to abandon institutions altogether when they do not produce the expected results, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution promoting community-oriented virtues and behaviors, such as generosity, kindness, compassion, tenderness, reconciliation, willingness to help others, to give them freedom, to be open to receive their affection, to care for the weakest, the sick, the vulnerable, even to choose careers to dedicate a whole life to help the community, the most vulnerable, empowering National Intellectual Capital.

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- Objectives, strategies, resources, and execution based on the meaning of our lives, considering that suffering can be part of discernment, as it can generate the sensitivity to make decisions with a sense of community, to create a better reality that helps to overcome suffering, to help others deal with the meanings of their lives and reduce their suffering, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution living suffering as part of transcendence, as part of a journey toward transcendence, moving to better realities, to higher levels, accepting it for a higher purpose, as part of a vision, vision, values, relationships, decisions and social action, which can be painful: creating something beautiful, good, true may require extraordinary sacrifices, empowering National Intellectual Capital. Greatness and suffering can walk together. Growing up and maturing can be painful; giving up the current reality to reach a better one that may not be reached immediately implies a loss, taking a risk.
- Objectives, strategies, resources, and execution living suffering as part of the development of superior resources, as a path toward goodness, beauty, love, suffering as part of the battle for transcendence, for overcoming oneself, a battle for personal and community growth, a battle against evil, against death, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution considering our power to transform people and communities; our power to create, recreate, perfect, reform, purify, enlighten; our power to unite, integrate, love, cooperate, simplify, liberate; our power to give life, empower, energize, strengthen, discover, develop; our power to produce spiritual, emotional and physical health; our power to restore our likeness to God, likeness to the Trinity (for Christians); our power to develop virtues, empowering National Intellectual Capital.

- Objectives, strategies, resources, and execution considering our power to carry out social actions, to drive social change, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution promote social actions that foster a vision to build an active society, in which members have the resources and leadership in caring for the community; the power to perform social actions fosters higher-level values; the power to transform those values into realities, to care for each member of the community; the power to perform social actions fosters discernment, based on movements of the soul impacted by the capacity to do good to society, empowering National Intellectual Capital.
- Objectives, strategies, resources, and execution based on the power to perform social actions as a result of practical spirituality, the practice of mercy, based on the dignity of every human being, and the value of creation, participating in the life of God (for Judeo-Christians), in his mission: Isaiah 6:1-3 and Luke 4:18, empowering National Intellectual Capital.

5. Leaders contribute with the ability to transform, heal, execute social actions, drive social change, empowering National Intellectual Capital

Private or governmental organizations promote social action, and social change in multiple ways: economic growth, social justice, civil economy, solidarity, subsidiarity, social innovation, social entrepreneurship, business for social impact, microfinance, sustainability, social policy, education for the most disadvantaged, social healthcare, stakeholder CSR, corporate citizenship, corporate social performance in three domains, corporate social responsiveness, social venture capital, socially responsible investment, social work, community development, worker welfare, non-profit organizations, philanthropy.

Leaders as drivers of social action

Leaders promote social action as a product of their capacity for transcendence, to build goodness, beauty, and a better world.

Leaders promote social activities due to their ability to relate to others, know others, value them, help them, carry out social actions, and build a better world.

Leaders promote social action as a product of their practical spirituality, the practice of mercy based on personal sensitivity, the dignity of every human being, and the value of creation.

Leaders promote social action due to their religiosity (for religious persons), collaborating with God as efficient causes, doers, artisans, and makers, as God did with us.

Leaders promote social action as a result of their religiosity (for religious persons), collaborating with God as a formal cause, imitating God's perfections, and promoting social action based on the image of God.

Leaders promote social action due to their religiosity (for religious persons), collaborating with God as the final cause, our final goal, our final cause, seeking God as the ultimate goodness, beauty, truth, and love.

Leaders promote social action as a product of their Judeo-Christian religiosity (for Judeo-Christians): (Isaiah 61:1-2, Luke 4:18) bring good news to the afflicted, bind up the brokenhearted, set the captives free, release the prisoners, comfort all who mourn, fight demons, be born again.

Leaders promote social action as a product of their discernment, suffering as part of desolation, as part of the meaning of their existence and their suffering, drivers of social action and transformation, to help others overcome suffering, eliminate suffering, find the meanings of their lives.

Leaders promote social action as a product of their transformative power, helping to develop community-oriented virtues and behaviors

such as generosity, kindness, compassion, and willingness to help others, to care for the weak, the sick, the vulnerable, and even choose careers to dedicate an entire life to helping the community, the vulnerable; a person's happiness is not complete if it does not incorporate the happiness of others.

Leaders promote social action as a product of their power of social transformation, creation, recreation, reform, enlightenment, enlightenment, life-giving, healing, cleansing, empowering, energizing, strengthening, discovering, developing, conserving, elevating, purifying, integrating, cooperating, uniting.

Leaders promote solidarity, empowering National Intellectual Capital

Leaders promote solidarity, fostering human and social development.

Leaders promote solidarity, economic justice, shared economic growth, employment opportunities, human and social development.

Leaders promote solidarity, environmental sustainability, and reduction of non-renewable resources.

Leaders promote solidarity, encouraging the elimination of the poverty trap through external financial aid and through specific, granular, detailed, case-by-case problem solving that promotes "functioning" in two dimensions: "being" (being well-nourished, living in a good environment, having specific abilities or disabilities, physical and emotional health, having a good education, the ability to adapt to reality) and "doing" (working, studying, speaking, travelling, voting, eating) promoting personal initiative, personal agency.

Leaders promote subsidiarity, empowering National Intellectual Capital

Leaders promote subsidiarity, fostering a civil economy, common market life, mutual aid, trust, mutual advantage, reciprocity, friendship,

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mutual assistance, fraternity as the essence of production and exchange, civil entrepreneurship, high density of interpersonal relationships, freedom to create groups, access to the common good, responsibilities based on capabilities.

IV. A LEADERSHIP CULTURE RELIES ON A REALIST EPISTEMOLOGY, WHICH PROMOTES SOCIAL HARMONY, TOWARD WORLD PEACE

Introduction

The purpose of this chapter is to discuss the benefits and limitations of the right and the left to soften the radical positions in both groups, introducing the need for a leadership culture to promote the best social outcomes.

This chapter introduces the debate on the cultural values, also called the ideologies, that influence the political economy: individualist cultural values influence the right, and collectivist cultural values influence the left.

This introduces the debate on the epistemological foundations of individualism and collectivism. Individualism relies on an empiricist epistemology, and collectivism relies on a subjective idealist epistemology: both have strengths and weaknesses.

The connection between the political economy, cultural values and epistemologies is crucial to understanding a leadership culture's centrality, founded on a realist epistemology.

The unquestionable success of modern capitalism

Johan Norberg¹ and Steven Pinker² provide statistics, showing the extraordinary evolution of humanity since the expansion of capitalism:

¹ Norberg, Johan. *Progress. Ten Reasons to Look Forward to the Future*. One World Publications. 2016.

² Pinker, Steven. *Enlightenment now. The case for reason, science, humanism and progress*. Penguin Random House. 2018.

- Wealth. World GDP per capita has grown from \$600 to \$12000 between 1900 and 2019. According to the World Bank³, by 2019, high-income countries GDP per capita was \$44,540, upper middle income \$9,040, middle income \$5,575, low and middle income \$5,080, lower middle income \$2,176, low income \$779.
- Equality. The international Gini population-adjusted index between 1950 and 2013 fell from 0.63 to 0.47, indicating a reduction of inequality.
- Social spending. Social spending in GDP percentage between 1880 and 2016 grew from almost 0% to 30% (average) in Europe, 18% in the US.
- Food. The world population with undernourishment between 1945 and 2015 fell from 50% to 10%. Calories per person per day in the UK grew from 2,200 to 3,200 between 1700 and 2013. Famine deaths per 100,000 people per decade fell from 600 to 0 during the last 150 years.
- Water. The world population with access to water between 1980 and 2014 rose from 52% to 92%.
- Life expectancy. Life expectancy at birth years between 1900 and 2010 improved from 31 to 70. Child mortality in children dying before the age of 5 in Sweden between 1750 and 2013 fell from 35% to 0%. Maternal mortality in maternal mortality in childbirth in Sweden between 1750 and 2013 fell from 1% to 0%.
- Health. Diverse medical discoveries saved almost five billion lives.
- Poverty. The world population with less than \$2 per day between 1900 and 2015 fell from 85% to 9%. The percentage of the world population living in extreme poverty fell from 80% to 10%.

³ <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

- Violence. The annual homicide per 100,000 people in Europe between the year 1400 to 2000 fell from 40 to 2.
- Environment. The emissions of the four leading air pollutants as a percentage of 1970 emissions fell 60%. The emissions of CO2 between 1975 to 2010 increased by 15%. Oil spills between 1975 to 2010 fell from 115 to 5.
- Knowledge. The percentage of world illiteracy between 1900 to 2010 fell from 78% to 13%. The global percentage of adults with primary education between 1820 and 2010 rose from 17% to 78%. Years of schooling in the US between 1875 to 2015 rose from 4 to 13 years.
- Well-being. The well-being composite index raised between 1820 to 2020 -0.6 to + 0.8. The historical index of human development between 1870 and 2000 rose from 0.1 to 0.5.
- Quality of life. The weekly work hours between 1870 and 2000 fell from 65 to 38 in Western Europe and from 61 to 40 in the US. The percentage of men above 65 years of age participating in the labor force between 1880 and 2015 fell from 75 to 25. The hours of housework per week between 1890 and 2015 fell from 60 to 18. The percentage of households with appliances is 100%. The percentage of income spent on necessities between 1925 and 2015 fell from 60 to 35. Leisure hours per week between 1965 and 2015 rose from 31 to 41 for men and 30 to 35 for women. Air travel costs between 1979 and 2014 fell by 50%, and international tourism travel increased by 100%.
- Freedom. The number of countries with slavery between 1800 and 2010 fell from 60 to 0.
- Equality. The number of countries with female suffrage between 1900 and 2010 rose from 0 to 184. During the last 20 years, people who agree that women must return to traditional roles fell from 50% to 25%, people who agree that school boards should have the right to fire known homosexuals fell

from 30% to 22%, people who disagree that think that it is all right that black and white date fell from 45% to 12%. Homophobic, sexist, and racist jokes between 2004 and 2017 fell from 30% to 3%, 60% to 20%, 80% to 12%. Violence against wives and girlfriends between 1995 and 2015 fell from 1,600 to 400. The number of countries that have decriminalized homosexuality between 1790 and 2015 rose from 0 to 90.

- Child labor. The percentage of child labor to the working population between 1950 and 2010 fell from 27% to 10%.
- Peace. The percentage of years in which great powers fought each other between 1500 and 2010 fell from 80% to almost 0%. Battle deaths per 100,000 people per year between 1946 and 2010 fell from 20 to almost 0. Homicide deaths per 100,000 people per year between 1300 and 2000 fell from 23 in the UK, 48 in the Netherlands and Belgium, 57 in Italy, to 1%. In the US, between 1970 to 2015 fell from 9 to 5. Other deaths such as pedestrian, plane crash, fall, fire, drowning, occupational, natural disaster, and lightning strikes have also fallen drastically.
- Democracy versus autocracy score has improved from -7 to +4 (on a scale from -10 to +10).

Christian Welzel⁴ explains how democracy is essential to progress, as it ensures freedom. Freedom, resources, and motivation are the three pillars of human progress.

⁴ Welzel, Christian. *Freedom Rising Human Empowerment and the Quest for Emancipation*. 2013. Cambridge University Press. Boston. https://www.researchgate.net/publication/259241027_Freedom_Rising_Human_Empowerment_and_the_Quest_for_Emancipation.

Different social sectors have positive and negative visions of capitalism

According to a December 2019 survey by the Pew Research Center⁵ in the United States, investigates who is benefiting from capitalism: 69% responded that capitalism is helping the rich, while 58% that capitalism is hurting the middle class, 64% that it is hurting the poor, and 48% that it is hurting them and their families. The research also shows that 65% of people with lower incomes worry about not being able to pay their bills.

According to a McKinsey⁶ report, May 2019, the labor share of income has declined since 1980 in the major economies: 12.5% decline in Spain, 7.7% in France, 7.3% in Germany, 6.2% in Sweden, 5.8% in the US, and 1.9% in the UK.

A report from the Metropolitan Policy Program at Brookings⁷ of November 2019 states that "More than 53 million people—44% of all workers aged 18-64—are low-wage workers by our criteria. They earn median hourly wages of \$10.22 and median annual earnings of

⁵ Igielnik, Ruth Most and Kim Parker. *Americans say the current economy is helping the rich and hurting the poor and middle class. About half of lower-income Republicans say current economic conditions are hurting them and their families.* Pew Research Center. December 2019. <https://www.pewsocial-trends.org/2019/12/11/most-americans-say-the-current-economy-is-helping-the-rich-hurting-the-poor-and-middle-class/>

⁶ Manyika, James, et al. *A new look at the declining labor share of income in the United States.* McKinsey Global Institute. May 2019. <https://www.mckinsey.com/~media/McKinsey/Featured%20Insights/Employment%20and%20Growth/A%20new%20look%20at%20the%20declining%20labor%20share%20of%20income%20in%20the%20United%20States/MGI-A-new-look-at-the-declining-labor-share-of-income-in-the-United-States.pdf>

⁷ Ross, Martha; Bateman, Nicole. *Metropolitan Policy Program at Brookings.* November 2019. https://www.brookings.edu/wp-content/uploads/2019/11/201911_Brookings-Metro_low-wage-workforce_Ross-Bateman.pdf#page=9

\$17,950". The report shows the fact that racial minorities and women suffer a large proportion of these disparities.

According to Gallup⁸:

- Positive opinions of socialism steady at 39%; capitalism at 60%.
- 47% desire government to do more to solve country's problems.
- 25% favor more government services if paired with higher taxes.

Another report by Gallup⁹ contrasts the views of older and younger Americans:

- Americans aged 18 to 29 are as positive about socialism (51%) as they are about capitalism (45%).
- This represents a 12-point decline in young adults' positive views of capitalism in just the past two years and a marked shift since 2010, when 68% viewed it positively. Meanwhile, young people's views of socialism have fluctuated somewhat from year to year, but 51% with a positive view today is the same as in 2010.
- Older Americans have been consistently more positive about capitalism than socialism. For those 50 and older, twice as many currently have a favorable view of capitalism as of socialism.

⁸ Jones, Jeffrey; Saad, Lydia. *U.S. Support for More Government Inches Up, but Not for Socialism*. Gallup. November 2019. <https://news.gallup.com/poll/268295/support-government-inches-not-socialism.aspx>

⁹ Newport, Frank. *Democrats More Positive About Socialism Than Capitalism*. Gallup. August 2018. <https://news.gallup.com/poll/240725/democrats-positive-socialism-capitalism.aspx>

Most of the U.S. population still prefers capitalism over socialism

The Cato 2019 Welfare, Work, and Wealth National Survey¹⁰ shows that:

- Democrats turned against capitalism during the Trump era; 64% of Democrats like socialism, and 45% like capitalism.
- 50% of Democrats say Trump has soured their view of capitalism.
- 59% of Americans have favorable views of capitalism, and 39% have unfavorable views. In reverse, 39% have favorable views, and 59% have unfavorable views of socialism.
- 84% of Americans say "there's nothing wrong with a person trying to make as much money as they honestly can"; 82% of Americans think people "should be allowed to become billionaires"; 75% don't believe it's "immoral for society to allow people to become billionaires".
- Americans believe the rich create value for society: 69% agree billionaires "earned their wealth by creating value for others like inventing new technologies or starting businesses that improve people's lives"; 65% believe that "we are all better off when people get rich" because "they invest their money in new businesses that create jobs and new technology".
- 61% favor raising taxes on families earning over \$200,000 annually.
- 62% oppose redistributing wealth from the rich to the poor.
- 55% of Americans believe the distribution of wealth in the U.S. is unfair.

¹⁰ Elkins, Emily. *What Americans Think About Poverty, Wealth, and Work*. Findings from the Cato Institute 2019 Welfare, Work, and Wealth National Survey. Cato Institute.

- Resentment better predicts attitudes toward capitalism and taxes than compassion; both resentment and compassion predict support for socialism.
- Liberals say wealth and poverty are primarily due to chance; conservatives believe wealth and poverty are primarily due to people's choices.

Individualism and collectivism impact cultural populism

As Taggart and Rooduijn¹¹ summarize, populism is an ideology that sees society as divided between the "pure people" and the "evil and corrupt elite"¹². According to them, the main components of a populist ideology are:

- The separation of society into two opposing groups: "the people" and "outsiders", "the elite".
- The people belong to the interior of the country, sacred. They can be the peasants, the proletariat. They feel nostalgia; they want to return to an idealized past.
- "The people" is a homogeneous group, a natural majority, with the same identity, values, and beliefs.
- Outsiders as elites. They are out of touch with real people. They are personalized in the political elites (parties, government), the economic elites (big business, banks), and the cultural elites (universities, writers, media).
- Outsiders as minorities: cultural, immigrant, ethnic, religious minorities. They are dangerous and should be excluded from universal rights.

¹¹ Taggart, P. *Populism*. Buckingham: Open University Press. 2000

¹² Rooduijn, Matthijs. *The core of populism: In search of the lowest common denominator*. Government and Opposition. 2014.

- This separation implies a moral judgment: the people are pure, legitimate, hard-working, and family-oriented. Outsiders, the elites, are corrupt.
- Restore power to the "people," popular sovereignty. A charismatic leader understands the "people's needs", connects directly, and responds to those needs.
- They prefer direct democracy, referendums,
- They reject globalization, free trade, the new economy as opposed to the traditional economy,
- Anti-modernity, return to traditions, status quo, opposition to immigration, cosmopolitanism, and political correctness.

For Akkerman, Muddle, and Zaslove, cultural populism¹³ grows as a confrontation of those inside the country with those outsiders in terms of cultural values, cultural identity, religion, and ethnicity:

- Personal and social values have changed; traditional sets of values are confronted with new values on gender issues, lifestyles, and the role of men.
- Traditional religion is confronted with new attitudes toward religion.
- Preference for simple language, rejecting political correctness.
- Declining trust in institutions, in outsiders, and in other social groups. Declining trust in democratic institutions and politicians, bureaucrats, and technocrats.

According to Akkerman et al.¹⁴, change, crisis, and threat encourage populism:

¹³ Akkerman, Agnes, Cas Mudde and Andrej Zaslove. How populist are people? Measuring populist attitudes in voters. *Comparative political studies*. 2014

¹⁴ Ibid.

- The world is changing rapidly, and the heartland is being impacted without adequate resources.
- The need for higher education, the new technologies that people of the heart cannot access.
- The growth of diversity, driven by immigration, puts national identity at risk.

Individualist and collectivist cultural values empower the components of populism described above, leading to radical forms of cultural populism.

The challenges of modern societies that lead to economic populism

Modern democracies face challenges that promote different types of populism among the population and politicians.

According to Guillen, economic populism¹⁵ grows as a result of worsening economic conditions inside the country, compared to those outside the country:

- Limited economic development, unemployment and economic inequality have worsened over the past three decades and worsened after the 2008 global economic crisis.
- Economic inequality becomes emotional when "others" get better off than "us".¹⁶

Some types of populism are compatible with democracy, but others are not

¹⁵ Guillen, M. F. Business groups in emerging economies: A resource-based view. *Academy of Management Magazine*. 2000.

¹⁶ Kendall-Taylor, Andrea; Nietzsche, Carisa. *Combating Populism. A Toolkit for Liberal Democratic Actors*. Center for a New American Security. Washington.

There are different types of populism:

- Populism as a political logic¹⁷, a style, a discourse. Politics implies populism as a form of expression. Populism becomes part of established politics, of established, traditional political parties.
- Right-wing populism identifies the interior with the people.
- Left populism identifies the lower class with the people.
- Thin populism¹⁸ is considered dangerous and disruptive; populism divides, strongly opposes dialogue, confronts elites, corroding institutions.
- Coarse¹⁹, participatory, electoral populism can be beneficial if it proposes debates and renewal.
- Implicit populism refers to traditional mainstream politicians who adopt a populist style within an institutional framework.

Populism and the Decline of Democratic Institutions

Kendall-Taylor and Nietzsche²⁰ explain how populism degrades modern liberal democracies:

- Republicanism: relates to popular sovereignty, the people as the only source of legitimacy. The authority of the government derives from the people.
- Democratic: refers to the equality of all citizens, to majority rule.

¹⁷ Laclau, E. *On Populist Reason*. London: Verso. 2005

¹⁸ Mudde, Cas; Cristóbal, Rovira Kaltwasser. *Populism: A Very Short Introduction*. Oxford: Oxford University Press. 2017

¹⁹ Dzur, Albert W.; Hendriks, Carolyn M. *Thick Populism: Democracy-enhancing Popular Participation*. *Policy Studies*. 2018.

²⁰ Kendall-Taylor, Andrea; Nietzsche, Carisa. *Combating Populism. A Toolkit for Liberal Democratic Actors*. Center for a New American Security. Washington.

- Constitutional: structure of institutions, rules, and regulations to govern public life, establishing institutional limits, separation of powers, checks, and balances.
- Liberal: governments must protect civil liberties, equality, and individual rights to manage their cultural, social, economic, and religious life. Each person is free to live according to their values.

According to Kendall-Taylor and Nietzsche, populism distorts democracy by identifying populists as "the people". Populism distrusts constitutionalism, questioning government, rules and regulations, and the elites who manipulate them. Populism rejects liberalism, pluralism, defends the rule of the majority, despising the rights of minorities. These views exclude the "others" from democracy, destroying pluralism, the core of democracy. Polarization and fragmentation make it difficult for a democracy to function. Abuses of power and disregard for institutions become acceptable.

Democracy still has public support

According to a Pew Research Center²¹ survey, conducted in September 2017: globally, there is broad support for representative and direct democracy; but many also support non-democratic alternatives; democracy continues to have broad global support:

A survey of 38 countries by the Pew Research Center reveals that there is reason to be reassured and concerned about the future of democracy. More than half of the countries surveyed consider representative democracy to be a very or fairly good way to govern their country. However, in all countries, attitudes in favor of de-

²¹ <https://www.pewresearch.org/global/2017/10/16/globally-broad-support-for-representative-and-direct-democracy/>

mocracy coexist, to varying degrees, with openness to non-democratic forms of government, including rule by experts, a strong leader or the military.²²

Internet-based social media empowers individualism and collectivism, fostering social fragmentation and radicalization

Netflix's documentary "The Social Dilemma" shows how Internet-based social media empowers individualism and collectivism, fostering isolation, social fragmentation, and radicalization.

Social media empowers collectivism by encouraging massification, collectivization, and radicalization, opening the door for countries like Russia, China, North Korea, and others to manipulate public opinion and democracies.

According to "The Social Dilemma", the Internet has a double effect: it affects individuals' emotional health and social fabric. When we use the Internet, we generate information available to everyone. Social media companies are working to make their products more and more addictive: the more attention we devote to social media, the more we engage, and the more information we generate.

According to "The Social Dilemma", to reinforce this engagement, social networks exploit users' psychological vulnerabilities, triggering the release of dopamine, creating addictions, and encouraging users to spend more time, which impacts their behavior. Our behaviors change, even if we are not aware of them. Companies use this information, relying on Artificial Intelligence (AI) to know what factors or actors affect our behaviors. Based on this, they make marketing decisions: what products or services they offer, what promotion, advertising, and what information they send us. With our information, advertisers make predictions: what we do, who we are, how we feel, our psychologies, our needs, and our behaviors, to make sure their ads will work.

²² Ibid.

According to "The Social Dilemma", AI's algorithms decide what information they send to users. We receive the information that we like: Republicans will receive the information that Republicans like, the same with Democrats, creating an information gap between the two.

Social media empowers individualism by isolating each person and group according to their preferences until they become unable to understand others and connect, leading to a lack of trust, fragmentation, polarization, and radicalization of society. It becomes challenging to know what is true. It promotes massive distrust of others.

It promotes different types of populism to all levels of society, insiders against outsiders in terms of cultural values, cultural identity, religion, ethnicity, "the people" against "the elite": people on the right and left become more radical, more confrontational.

According to "The Social Dilemma", the internet and social networks allow the spread of fake news several times faster than real news: Covid 19 is an invention, the earth is flat, Pizzagate claimed that Democrats are involved in a pedophile ring; Russia-gate and China-gate which use social networks to manipulate presidential elections. Fake news fuels the radicalization that AI magnifies. Far-right and far-left groups grow, and the center loses members to social media's fake news and conspiracy theories. Social media is destabilizing country after country. The explosion of fake news enabled by social media leads society to ignore what is true. The relativism of the societies of the last centuries becomes massive, and societies collapse. Social media creates chaos, violence, loneliness, alienation, polarization, and personal and social fragmentation. This doesn't mean that social media is going to destroy the world. There are solutions. The industry can be regulated; new personal information privacy laws can protect users; however, that hasn't happened.

This phenomenon empowers left and right-wing populism and dictatorships, putting democracies at risk of collapse and civil war.

The benefits and limitations of the right

The following thinkers provided the foundations of the political economy of the right:

- Thomas Hobbes. Humans desire power, a permanent state of war; the need for a contract, the authority of the sovereign derives from the contract signed by the individuals; one's freedom restricts others' freedoms; morality is based on restrictions; a powerful sovereign is required to ensure law enforcement and peace; selfishness is the rule.
- John Locke. Freedom and equality, minimalist government, the rule of law.
- Bernard Mandeville. The defense of self-interest, personal greed, are the engine of economic prosperity, and progress; virtues lead to apathy; without private vices, there would be no public benefit.
- Adam Smith. Moral sentiments. Pleasure and pain. An invisible hand regulates self-interest and competition; self-interest leads to public wealth; minimal government intervention; laissez-faire.
- David Ricardo. The social conflict between landlords and workers; free trade benefits all
- Thomas Malthus. Food production tends to increase arithmetically, the population tends to increase geometrically, prices of products and food would steadily move up, while wages move down, leading to famine and civil unrest.
- John Stuart Mill. Thorough defense of freedom and liberalism; purposes of government: to prevent harm, to grant the constitution, to promote the development of individualities; persons must be accountable and responsible.
- Alfred Marshall. Free markets to determine prices and volumes.

- Ludwig von Mises. Division of labor leads to social cooperation; competition benefits consumers; capital grows faster than population for the benefit of the population; the consumers decide what must be produced; free markets lead to a rational price-setting and economic balance.
- Milton Friedman. Free market economy leads to social and economic cooperation; price system leads to peaceful cooperation; free markets produce efficiency, responsibility, prosperity for all; businesses focus on the maximization of economic value, which leads to positive social outcomes.

Benefits of the right

The right, free markets, encourage invention and wealth creation; markets are just, reduce discrimination, foster personal virtues, sustain political freedom and democracy, and promote efficient resource allocation and brain economy.

Michael Novak summarizes some critical aspects of the individualist political economy:

“There is an alternative to terror. It is called, in the political order, democracy. In the economic order, it is called the dynamic enterprise economy. It empowers poor people from the bottom up. A dynamic economic sector is the poor's best hope of escaping the prison of poverty. It is the only system so far known to human beings to take poor people and make them, quite soon, middle class, and some of them even (horrors!) rich.”²³

“During the past hundred years, the question for those who loved liberty was whether, relying on the virtues of our peoples, we could survive powerful assaults from without (as, in the Battle of

²³ Cited by Joe Carter at CERC Catholic Education Resource Center. <https://www.catholiceducation.org/en/faith-and-character/faith-and-character/5-facts-about-michael-novak.html>

Britain, this city nobly did). During the next hundred years, the question for those who love liberty is whether we can survive the most insidious and duplicitous attacks from within, from those who undermine the virtues of our people, doing in advance the work of the Father of Lies. "There is no such thing as truth," they teach even the little ones. "Truth is bondage. Believe what seems right to you. There are as many truths as there are individuals. Follow your feelings. Do as you please. Get in touch with yourself. Do what feels comfortable." Those who speak in this way prepare the jails of the twenty-first century. They do the work of tyrants."²⁴

It has the following benefits:

Government

- The cost of state bureaucracy falls as private firms take over.

²⁴ Novak, Michael. *Awakening From Nihilism: The Templeton Prize Address*. Essay adapted from an address presented by Mr. Novak at Westminster Abbey on May 5, 1994. <https://www.firstthings.com/article/1994/08/awakening-from-nihilismthe-templeton-prize-address>

Economy

- Economic growth and wealth creation. Innovation, better resources, more capital, and wealthier customers promote economic expansion, prosperity, higher living standards, wealth creation for everyone in society, and poverty reduction.

Society

- Freedom: economic freedom and political freedom, as government bureaucracies have smaller size and power, fewer restrictions to promote wealth and prosperity for all.

Producers

- Efficiency. Firms have incentives to promote efficiency, raise quality, reduce costs, and align the products to customers' needs.
- Incentives. Markets reward innovation, entrepreneurship, efficiency, quality, promoting hard work and prosperity for workers and consumers.

Consumers

- Prosperity, education, health, food, transportation.
- Consumers have more choices, a variety of goods available, and better service quality.

Workers

- Human resources: job training, professional education, competencies, technical, and social skills. More workers move from poverty to prosperity.

Resources

- The invisible hand. The markets decide how to allocate resources and factors of production (land, labor, capital, and entrepreneurship), markets promote the production of desirable products, markets decide how much to produce, promoting the most efficient firms and eliminating the least efficient ones.
- Massive development of factors of production (land, labor, capital, and entrepreneurship).
- More information.
- More technology.
- Access to foreign factors of production, foreign products.
- Innovation, entrepreneurship. Entrepreneurs, investors, universities develop new technologies, new products, new firms, new locations, new value chains, new industries.

Daniel Finn²⁵ presents an analysis of the morality of free markets. Finn synthesizes the defense of free markets in the following:

1. Markets encourage invention and technological change.
2. Markets create wealth for all.
3. Markets give people what they deserve.
4. Markets are just.
5. Markets reduce discrimination and bigotry.
6. Markets encourage self-interest rightly understood.
7. Markets encourage personal virtues.
8. Markets encourage political freedom and democracy.
9. Markets should not be blamed for the failures of culture.
10. An invisible hand leads self-interest to serve all.

²⁵ Finn, Daniel. *The Moral Ecology of Markets: Assessing Claims about Markets and Justice*. Cambridge University Press. 2016. Cambridge, New York.

Smith's invisible hand, private property personal initiative, freedom, and laissez-faire empower competition for efficiency, optimizing resources allocation; initiative and entrepreneurship promote wealth creation and growth. It enables the creation of a brain economy, in which all economic agents maximize knowledge development and initiative. It has demonstrated an extraordinary power to develop wealth and prosperity.

Neoclassical economics introduces Marginalism, a better calculation of variables that maximizes an individual's utility and allocation of resources. The demand function incorporates human needs. The supply function compensates workers, capitalists, and owners for resource use. Perfect competition provides an optimal solution for consumers.

Milton Friedman stated: "A society that puts equality before freedom will get neither. A society that puts freedom before equality will get a high degree of both."

Winston Churchill stated: "It has been said that democracy is the worst form of government except for all the others that have been tried."

Limitations of the right

Markets may generate inequality, threaten the environment, need enforcement, encourage greed, undermine the culture, and not promote social values, leading to adverse social outcomes, dishonesty, crime, and violence. A society cannot survive without values.

Government

- Corruption over the economic and political systems.
- Crime and marginality to make money to survive.
- Marginalized and impoverished citizens may decide to turn into populist government forms, may turn against immigrants,

blaming other sectors of society for their poverty, and creating false expectations.

Economy

- Monopoly power. Free markets tend to concentrate power in a few, leading to higher prices and a transfer of wealth from the poor to the rich.
- Monopsony power. Labor markets monopsony power, larger firms can pay lower wages to workers.
- Market, financial, economic, and political power are concentrated in a few hands; power can be abused for their benefit.
- Boom and bust cycles, periodic economic crises, recurrent recession, and unemployment.

Society

- Wealth inequality. Markets do not provide equality of opportunities. The underprivileged may not be able to overcome the barriers to entry into better economic levels.
- Unemployment or a medical need may lead people into marginality, homelessness, lack of healthcare, and lack of food.
- Lack of education, lack of healthcare, lack of talent may turn people into poverty, and marginality.
- Inequalities create social tension that can lead to violence. Human needs such as food, healthcare, and education may be unavailable for the underprivileged. Social cooperation becomes rare.
- Financial speculation and banking crises. People are losing their homes and jobs, overpayment for homes, commodities, and currencies.

- Loss of personal freedom. The need for food, house, work, taxes may force people to sell their labor for money to survive.

Workers

- Abuses of human resources, forced to overwork to keep their jobs.
- Risks of falling into extreme poverty, risks of becoming obsolete, risk of not having any social safety net make workers fearful of losing their jobs.
- Changes in trends may turn a valuable worker into someone obsolete, unemployed, with risks of falling into poverty and marginalization.

Consumers

- Free markets cannot guarantee that social benefits will be provided to all, leading to limited or no social benefits and welfare.
- Free markets make investment decisions intending to maximize shareholder wealth, not based on the population's social needs.

Resources

- Distorted investment priorities
- Exhaustion of natural resources, waste, overproduction.
- Negative production externalities. Air, water, noise pollution, climate change, food genetic manipulation, natural resources depletion, nuclear risks, and waste.

Finn analyzes whether free markets may lead to adverse side effects:

1. Markets generate an unjust distribution of income and well-being.
2. Markets threaten the environment.
3. Markets need enforcement of basic justice.
4. Market outcomes are not deserved.
5. Markets should not be exonerated by blaming culture.
6. Markets encourage greed.
7. Markets undermine the culture and its moral foundations.
8. Conservatives exaggerate the problems created by the government.

According to Finn, socialism criticizes capitalism based on the harsh daily life under capitalism, job, and economic insecurity, which makes people harsh to each other. It also considers that the litigation, law enforcement, unemployment, and many other inefficiencies of capitalism, make it wasteful and lead to useless competition. The defense of self-interest as morally acceptable leads to labeling Mother Theresa as driven by self-interest, consequently equalizing her work to thieves and criminals, meaning the end of any ethical criteria. Self-interest may also lead to care for others, on the presumption that it may ultimately produce a personal benefit: for example, a firm that treats its customers well ultimately expects to sell more. This is at the core of utilitarian ethics.

Finn proposes an excellent framework to analyze the morality of markets. He first presents the four problems of economic life:

1. Allocation of scarce resources

Individualism sees free markets as the best way to allocate resources, Adam Smith's invisible hand. Collectivism sees free markets as inefficient and wasteful.

There are problems with allocating scarce resources, problems with achieving a right scale compatible with the natural world: free-

markets cannot control abuses of human and natural resources; its radical *laissez-faire* cannot generate a fair and stable system.

2. Distribution of products and services in society

Individualism emphasizes the reward to the owners of resources for their efforts, risks, and sacrifices. Collectivism expresses concerns about the unequal distribution of wealth, unmet human needs, especially of the underprivileged, and abuses of market power provoked by a free market system without government intervention. There is no consensus on the ability of markets to solve all distribution concerns.

There are problems with the distribution of products and services in society:

- Markets have imperfections, enabling the consolidation of production and abuses of market power (monopolization, obstruction of free-market mechanisms), avarice, greed, exploitation, and opportunism.
- Free markets do not protect weaker sectors of the society, enabling a Social Darwinism that leads entire population sectors to suffer and die, permitting poor wealth distribution and inequalities. Persons who do not feel protected by the markets or do not have the resources to survive could vote for a collective system, become dishonest, or abuse the system.
- It has no grounds to oppose financial speculation empowered by a wealth concentration, which benefits a few, producing dramatic effects on millions. The global financial crisis of 2008 and the Euro crisis, both produced by financial speculation, left millions jobless and homeless.

3. Achieving the right scale, compatible with the natural world

Markets cannot solve sustainability issues such as the depletion of natural resources, global warming, and pollution. However, these topics do not reach consensus among society as many would prefer to solve current economic issues and leave the consequences of scale problems to future generations.

4. The quality of human relations

Economic and political lives and personal happiness are possible when there is a good interconnection among persons and communities, what modern science calls: social capital. Some markets may provide some personal interaction while others do not.

There are problems with the quality of human relations: an excess of individualism leads to a lack of cooperation.

Finn states that four mechanisms impact the morality of the economic system, its boundaries, and what he calls “Moral ecology”.

First, regulators set the existence of a normative framework: each society defines the norms, laws, and taxes connected with the four dimensions just described, which impact the morality of markets. Second, whether the right and left today agree, as Rawls defined, the markets or society must cover each person's basic needs. Third, there is a broad consensus that the economic system can only operate based on the morality of persons and communities: respect for the law, cooperation, concern for the common good of the entire community, and trust-building. Not only the markets or the government are essential, but also the existence of an active civil society: chambers of commerce, unions, clubs, churches, and volunteer groups.

Finally, free markets have “Market failures”, in which the equilibrium between supply and demand is not met. For example, negative externalities (environmental pollution) that transfer private costs of an action to the community.

John Maynard Keynes stated: “Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone.”

The genesis of individualist cultural values

According to Hofstede, in individualist families, speaking one's mind is a virtue; adults learn to receive direct feedback constructively; children are expected to have opinions of their own; if they don't, they have a weak character. Young people should earn their own money; everyone needs to communicate, and silence is abnormal. Children are treated as equals; they should mind their own business as soon as possible; children can contradict their parents. The relationship with others does not depend on the status of the other; family relationships seem cold and distant and lack intensity; there is an ideal of personal independence in the family.

According to Hofstede, students are to be treated equally, regardless of their background; students and teachers are treated as equals. Education prepares individuals to take their place in society with other individuals. The educational process is student-centered, with a premium on student initiative; students are supposed to ask questions when they do not understand, argue with teachers, and express disagreements and criticisms in front of the teacher.

According to Hofstede, in the workplace, superiors and subordinates are considered equals, role inequality can change, and everyone must use the same parking lot, and cafeteria. The ideal boss is a resourceful democrat; subordinates are expected to be consulted; privileges and status symbols are frowned upon. Self-interest and employer's interest must coincide; the relationship with the employer is only commercial in a job market; individuals perform better alone; incentives are based on individual performance; a task is assumed to trump any personal relationship.

According to Hofstede, in individualist countries, the state defends freedom, and privacy, with universal laws and rights that apply to all equally. The use of power must be legitimized and subject to judging between right and wrong. The sources of power are position, experience, and ability to give rewards; evolutions, not revolutions. Centrist solid parties, and pluralistic governments, can switch from one party to another without problems.

The link between individualism and empiricism

According to the Encyclopedia Britannica, individualism is a "part of the political spectrum associated with conservative political thought". The term derives from the seating arrangement of the French revolutionary parliament (circa 1790s) in which conservative representatives sat to the right of the president. In the 19th century the term was applied to conservatives who supported authority, tradition and property. In the 20th century a divergent and radical form developed that became associated with fascism."

Hofstede shows the strong connection between cultures and politics:

In individualist societies everyone is expected to have a private opinion, individual interests prevail over collective interests, state has restrained role in the economic system, high per capita GDP, joint-stock companies are owned by individual investors, everyone has a right to privacy, laws and rights are supposed to be the same for all, higher Human Rights rating, ideologies of individual freedom prevail over ideologies of equality, native economic theories are based on pursuit of individual self-interests, self-actualization

by every individual is an ultimate goal, autonomy is the ideal, outcome of psychological experiments depends on ego-other distinction²⁶.

The following thinkers laid the foundations of British empiricism:

- Roger Bacon. Theories supplied by reason should be verified by sensory data, aided by instruments, and corroborated by trustworthy witnesses.
- Francis Bacon. The scientific method, empirical, observational induction, associationism, the end of deductions, and metaphysics.
- Thomas Hobbes. Ideas are derived from sensations, experiences, and induction.
- John Locke. Knowledge is based on experience, sensations, and associations; it differs between people generating subjectivism and relativism.
- David Hume. Experience, sensations, and reflection; end of metaphysics; substance, causes are mental creations; radical skepticism; end of religious beliefs.
- John Stuart Mill. In induction, based on experience and observation, each person has different knowledge, leading to relativism.

The epistemological foundations of individualism: empiricism

Empiricism is the view that knowledge begins in the senses, all concepts originate in experience, through the five senses, there are no "apriori truths", all concepts are about or applicable to things that can be experienced, and all rationally acceptable beliefs or propositions are

²⁶ Hofstede, Geert; Hofstede, Gert Jan. *Cultures and Organizations: Software of the Mind*. McGraw-Hill Education. 2010. New York. p. 130.

justifiable or knowable only through experience (Encyclopedia Britannica).

Empiricism was born to eliminate confusion and skepticism and have a reliable way of constructing knowledge.

Empiricism considers that if everything becomes uncertain, one can only be sure of what comes from the senses, from practical experience. This determines what is true, so universal truths no longer exist.

Radical empiricism rejects knowledge that does not come from practical experiences; it rejects cause and effect. Scientific empiricism or positivism seeks universal laws and analyzes human behavior in the same way that one can analyze the behavior of beavers and bees.

Strengths of empiricism

Empiricism, as an epistemology, allowed the creation of knowledge that produced extraordinary scientific and technological progress. Empiricism was born to eliminate confusion and skepticism and have a reliable way of constructing knowledge. Theories supplied by reason, verified by sensory data, aided by instruments, and corroborated by reliable witnesses became modern scientific method pillars.

Weaknesses of empiricism

Empiricism is a fragile epistemology.

It generates relativism, subjectivism, skepticism, individualism, psychologism, and associationism.

External reality presents itself in different ways; the information that the senses receive is limited, and sometimes one cannot be sure about it; universal truths no longer exist; knowledge based on experience is incomplete since many human realities such as human emotions or affections cannot be reduced to material experiences; sometimes from the same data people process information in different ways reaching different conclusions; it isolates people by the mere fact of receiving different information disabling their ability to build universal

knowledge; empiricism denies the possibility of having universal ideas on issues beyond material realities condemning humanity to relativism on human issues. Knowledge results from "associations" or groupings of sensations, images, and affections produced by each personal psychology, leading to deep subjectivism and psychologism. Each person arrives at a different truth, leading to radical skepticism and relativism. This "associationism" eliminates cause and effect, final cause, and metaphysics.

Husserl explained the principal errors of empiricism:

Extreme empiricism is as absurd a theory of knowledge as extreme skepticism. It destroys the possibility of rational justification of mediate knowledge, and thus destroys its own possibility as a scientifically tested theory. It admits that there is mediate knowledge, the product of various validating connections, and does not reject the principles of validation. It not only admits that there is a logic, but it itself helps to construct it. However, if all proof is based on principles governing its procedure, and if its ultimate justification involves an appeal to such principles, then we would be in a circle or infinite regress if the principles of proof themselves required further proof, in a circle if the principles of proof used to justify the principles of proof were the same as the latter, in a regress if both sets of principles were repeatedly different. It is clear, therefore, that the demand for a fundamental justification of all mediate knowledge can only make sense if we can both see and know certain ultimate principles on which all proof ultimately rests. All principles justifying possible proofs must therefore be inferred deductively from certain ultimate, immediately evident principles, so that even the principles of the deduction in question are all given among such principles. Extreme empiricism, therefore, since it only at bottom has full confidence in the singular judgments of experience—a rather uncritical confidence, since it ignores the difficulties that so richly accompany

such singular judgments-abandons eo ipso all hope of rationally justifying mediate knowledge. He will not recognize as immediate perceptions, and as given truths, the ultimate principles on which the justification of mediate knowledge depends; he thinks he can do better by deriving them from experience and induction, that is, by justifying them mediately. But if one asks what principles justify such a derivation, empiricism, which is forbidden to appeal to immediately self-evident universal principles, appeals rather to naive, uncritical, everyday experience, which it thinks to dignify further by explaining it psychologically in the manner of Hume. He therefore fails to see that, having no perspicuous justification for our mediate assumptions, no justification, therefore, for the relevant procedures of proof of the immediately evident general principles which follow, his whole psychological theory, his whole mediate doctrine of empiricism, is without rational foundation, is, in fact, a mere assumption, no more than a commonplace prejudice. It is extraordinary that empiricism should give more credence to a theory so loaded with absurdities than to the fundamental trivialities of logic and arithmetic. As genuine psychologism, it always tends to mistake the psychological origin of certain general judgments of experience, on account of a supposed "naturalness," for a justification of the same judgments. It should be noted that it goes no better with Hume's moderate empiricism, which, despite the outbreaks of psychologistic confusion, still tries to maintain for the pure spheres of logic and mathematics, an a priori justification, and only hands over the factual sciences to experience. Such an epistemological point of view can also be shown to be untenable, even absurd, for a reason similar to the one we bring against extreme empiricism. Mediated judgments of facts - we can compress the meaning of Hume's theory in this sentence - never allow for a rational justification, but only for a psychological explanation. We have only to ask how this applies to the rational justification of the psychological judgments (about habit, association of ideas, etc.) on which the theory itself rests, and the factual arguments which it

itself employs. Then one sees at once the obvious conflict between the sense of the proposition which the theory seeks to prove and the sense of the deductions which it employs to prove it. The psychological premises of the theory are themselves mediate judgments of fact, and therefore lack any rational justification in the sense of the thesis they are trying to establish. In other words: the correctness of the theory presupposes the irrationality of its premises, the correctness of the premises the irrationality of the theory (or thesis).²⁷

A realist epistemology generates better knowledge than empiricism, drawing on all sources of knowledge, from the whole person and the community, fostering leadership.

Empiricism does not promote any leadership: relativism, skepticism, subjectivism, the lack of values that empiricism generates, the lack of greatness, the lack of transcendence, the absence of religious ideals, the lack of discernment, condemn society to live with limited leadership.

The benefits and limitations of the left

In response to the limitations of free markets' political economy, the left relies on the state's role.

The following thinkers provided the foundations of the political economy of the left:

- Immanuel Kant: Categorical imperative leads to human rights; an international order can reach perpetual peace; republican government, international organization, universal rights.

²⁷ Husserl, Edmund. *Logical Investigations*. First published in German as *Logische Untersuchungen* by M. Niemeyer, Halle 1900/1901. First published in English by Routledge & Kegan Paul Ltd. 1970. England. p. 59-61.

- Georg Wilhelm Friedrich Hegel: The consciousness of each person articulates with the consciousness of others through reason, on rights, laws, institutions, economics, politics, family; the role of the state becomes central, it reflects the national spirits or minds, altogether, the spirit of the world; historicism involves a process of the spirit toward its full freedom. Hegel defends that universal norms are developed historically by reason. The state controls all public activity, with full sovereignty, people must follow government officials' laws and advice.
- Socialism (Mikhail Bakunin, Fabianism: George Bernard Shaw, H.G. Wells, Sidney and Beatrice Webb, Graham Wallas): Public ownership of resources and means of production, cooperation.
- Utopian socialism (Henri de Saint-Simon, Robert Owen, Charles Fourier, Pierre-Joseph Proudhon, Fernand Pelloutier and Georges Sorel).
- Marxism: Historical evolution of the types of society; the society's economic structure is based on the material forces of production and the relations of production; societies live in constant conflict, dialectical materialism, class struggles; capitalism leads to the exploitation and alienation of workers; capitalism is condemned to self-destruction; monopolization and financial speculation make the rich richer and the poor poorer; revolution is required to produce a communist society, a dictatorship of the proletariat, with no classes, alienation, exploitation, domination, eliminating private property.

Benefits of the left

The state's role has become central in modern political systems. Modern democratic institutions, the rule of law, agreement on some universal rights, non-discrimination, international organizations, and

economic integration; they promote cooperation, freedom, peace, and stability. Socialism promotes a fairer distribution of wealth, cooperation and equality, a stronger community orientation, and softening the negative side of radical individualism.

As Jacques Maritain stated:

“From the last period of the XIXth Century on, state intervention has been needed to compensate for the general disregard for justice and human solidarity that prevailed during the early phases of the industrial revolution. State legislation with regard to employment and labor is in itself a requirement of the common good. And without the power of the State – the democratic state – how could a free body politic resist the pressure or the aggression of the totalitarian States? The growth of the State, in modern centuries, as a rational or juridical machine and with regard to its inner constitutive system of law and power, its unity, its discipline; the growth of the State, in the present century, as a technical machine and with regard to its law-making, supervising, and organizing functions in social and economic life, are in themselves part of the normal progress.

Such progress has been entirely corrupted in totalitarian States. It remains normal progress, though subject to many risks, in democratic States, especially as regards the development of social justice.

We may dislike the State machinery; I do not like it. Yet many things we do not like are necessary, not only in fact, but by right. On the one hand, the primary reason for which men, united in a political society, need the State, is the order of justice. On the other hand, social justice is the crucial need of modern societies. As a result, the primary duty of the modern State is the enforcement of social justice.”²⁸

²⁸ Maritain, Jacques. *Man and the State*. 1998. The Catholic University of America Press. Washington, DC. pp. 19-20.

Government

- Better long term policy planning and implementation, without the frequent alternation of political parties with opposite ideas that stay in power for short terms and are not accountable for the long term effect of their decisions.
- A better capacity of reaction to disasters, fast implementation of solutions.
- One single party represents the entire population, while in democracies, different parties represent different groups.

Economy

- No monopolies, no abuse of market power, no transfer of wealth from underprivileged to more affluent. The government is the monopoly, oriented to the welfare of the people.
- Central planning can develop an industrial power with a social orientation. Agriculture and manufacturing become the pillars of the economy for their positive social impact.
- Stable economy, end of inflation (price controls), economic cycles, unemployment.

Society

- More equal socially and economically, broad middle class, no aristocracy or class system. All the value-added is returned to society, not just the capitalists. Benefits are spread among workers according to their contribution.
- Social welfare becomes the core of the economy: healthcare, education, and retirement for everyone. Poverty and homelessness tend to be minimized as everyone has access to healthcare and education. Support for the underprivileged and vulnerable,

disabled, elderly. Public hospitals, low cost, or free medicine. Those who cannot work have welfare support.

- Education for everyone reduces economic gaps. Students do not need to drop classes to work.
- Reduction in corruption and crime as families have what they need: work, food, house. Also, the government has firm control of laws.

Producers

- Private business interaction with government is based on control of excess benefits, which can be oriented to welfare.

Workers

- People are free to choose their professions without any concern for money: people can be artists, intellectuals, athletes, scientists. Workers own the means of production; consequently, they are not exploited.
- Better control of human resources, no unemployment, it is easier to find a job, workers have more participation, reduction of wealth disparities.

Resources

- A centrally planned economy enables better use of resources.
- Better control natural resources, which belong to the society.
- It avoids excess or insufficient production; shortages should not occur.
- Less money wasted on advertising and promotion.
- Better care of the ecology and natural resources.

Socialism promotes a fairer distribution of wealth, promoting cooperation and equality, a stronger community orientation, and softening the negative side of radical individualism.

A collectivist political economy leads to international integration with institutions such as the United Nations with their declaration of human rights and the WTO, and IMF, which foster international integration, peace, and stability.

Limitations of the left

It may generate a loss of freedom, leadership corruption, oligarchies, government inefficiency, inefficient economy, lack of a pricing mechanism, low income, lack of incentives to promote efficiency, entrepreneurship, tolerance to underperformance, disregard for the consumer, workers' low motivation.

- Winston Churchill: “Socialism is a philosophy of failure, the creed of ignorance, and the gospel of envy, its inherent virtue is the equal sharing of misery.”
- Michael Novak: “To persuade thinking persons in Eastern Europe that Central American Marxists - the Sandinistas, the guerrillas in El Salvador - are in absurd and tragic error is not difficult. Poles and Czechs and Hungarians can hardly believe, after what they experienced under socialism, that other human beings would fall for the same bundle of lies, half-truths, and distortions. Sadly, however, illusion is often sweeter to human taste than reality. The last marxist in the world will probably be an American nun.”²⁹
- Jacques Maritain: “The tragedy of the national totalitarian states consists principally in this: while they require the total devotion of the person, they lack and even repudiate explicitly all understanding and respect for the person and its interior riches. In consequence, they are impelled to seek a principle of human exaltation in myths of outward grandeur and unending

²⁹ Novak, Michael. *The spirit of democratic capitalism*. Madison books. 1991. New York. p. 420.

efforts toward external power and prestige. Such an impulse tends of itself to generate war and the self-destruction of the civilized community.”³⁰

- Ludwig von Mises: Socialism leads to dictatorships; government means coercion and compulsion, elimination of personal freedoms; state interference destroys innovation, economic life; socialism leads to lack of freedom of choice for workers and consumers; the worship of the state is the worship of force, led by incompetent, corrupt, or vile men.
- Friedrich von Hayek: Economic control is the control of the means for all our ends, what men should believe and strive for; planning leads to dictatorship because dictatorship is the most effective instrument of coercion and the enforcement of ideas; price system is a mechanism for communicating information which is dispersed among all the people involved in the process.
- Milton Friedman: The use of force to promote equality leads to lack of freedom and corruption; governments are irresponsible, inefficient and wasteful; it leads to inflation that harms especially the most vulnerable; government actions to benefit vulnerable sectors harm those protected sectors; the Federal Reserve generates instability and financial speculation, it should be eliminated.
- Kenneth Arrow: The decisions made collectively do not meet all requirements of collective rational decisions, making inefficient social choice decisions; no voting system is perfect, which leads to downplaying the role of the state.

³⁰ Maritain, Jacques; Fitzgerald, John J. *The Person and the Common Good*. University of Notre Dame Press. 1994. Indiana.

- Anthony Downs: Uncertainty exists, and information is obtainable only at a cost; the system promotes lack of clarity, irrationality, and instability, together with lack of information; it downplays the state's role.
- James McGill Buchanan: Politicians and bureaucrats maximize their incentives, just like everybody else. Whereas self-interest leads to good results in the marketplace, it produces nothing but pathology in political decisions, such as free-riding and rent-seeking by voters, bureaucrats, politicians, and public funds recipients. The "bureaucratic firms" managers seek to maximize budgets to obtain greater power, larger salaries, and other perquisites; higher government spending, inefficient allocation among government agencies, and inefficient production within them.

Government

- Nationalization of the means of production leads to a loss of political and economic freedom. The increased power is used to limit personal freedom, leading to totalitarian regimes.
- Leadership is prone to corruption. Greed attracts corrupt individuals into government positions; power tends to corrupt people, especially when there is no monitoring and control system or external criticism when power can limit a freed press and exert coercion.
- A socialist state can abandon idealism and invite corrupt people to power to take advantage of power benefits. Government officials and people connected with the government can create oligarchies that benefit at the expense of society.
- More bureaucracy, more committees, make decisions, slow, vulnerable to corruption and cliques, leading into inefficiency and poverty.

Economy

- Lack of market control leads to inefficient economies.
 - Lack of a pricing mechanism as the government owns the means of production controls all labor force. Impossible to know the demand, what consumers need or want. Cost accounting becomes meaningless; lack of economic calculation makes a rational allocation of resources impossible, leading to "planned chaos", "planned anarchy".
 - It does not generate wealth and prosperity, weakens economic growth, and leads to low income per capita. The standard of living and wealth of collectivist countries is lower than in free-market countries. The poor are the ones who suffer the most from the problems of a collectivist economy.
 - Inflation is generated by inefficient government spending and waste.
 - It generates black markets, products that people demand, and the economy does not provide.

Society

- Personal freedom disappears, the rule of law and human rights are not secure; people can be arrested to pass their properties to corrupt politicians or law enforcement officers. The state can control personal life, work, properties, and freedom. The government can create a network of spies in every neighborhood, relying on some of the neighbors. There is no political opposition.
- Censorship inhibits civilians' expression, reducing personal freedom, blocking any feedback to improve the social, political, and economic system, making the entire government inefficient. Media is not used to communicate, but as government propaganda, spreading lies. People are kept uninformed. The

party control all information, screening international information, isolating civilians from the external world.

- Healthcare and education require higher taxes. Although they are free, their quality is inferior.
- Although housing is provided, people cannot choose where to live.
- Socialism is an intellectual construct produced by intellectuals, not a working-class movement, that fails in its implementation
- The lack of rationality, the lack of innovation, the inefficiency, poverty, the massive corruption, the impossibility of the lower class to express their dissatisfaction, can only be sustained by a totalitarian regime, oppression, elimination of personal freedoms, concentration camps, killing of millions for the defense of the ideal as many regimes have done such as Nazism, Stalinism, Maoism.
- Freedom of speech is eliminated.
- Secret police control civilians, eliminate dissent with severe punishments.
- The government's lack of morality and poverty leads to a lack of morality in society.
- State intervention promotes opportunistic behavior of "protected" sectors, counter-discrimination.
- It overloads taxpayers, produces crowding out of the private sector, weakens economic growth and wealth creation.

Producers

- State-owned firms tend to be less efficient, have more employees, have fewer incentives to be efficient and innovative.
- Equal compensation, lack of rewards for personal talents, efforts to excel, lack of competition, lead to a lack of incentives. Planners, managers, and workers do not have incentives to

promote social prosperity. The business suffers a lack of compensation and consequently reduce their output.

- No incentives generate low motivation, low productivity, low innovation, low quality; it permits adverse outcomes of human nature: idleness, passivity, too much tolerance to underperformance, lack of concern for the consumer, unable to produce the consumer goods that people need.
- Entrepreneurship and innovation are replaced by an unmotivated, poorly paid, unskilled, and inefficient bureaucrat.
- Disregard to property rights inhibits investment. Even if people could save something, it cannot be inherited by the family members, which disables investments.

Workers

- Less freedom of choices of personal values, choices over social issues. Lack of freedom to choose a personal vocation, skills, and interests: careers are based on government demands.
- Although unemployment is low, some people are employed without producing anything meaningful or doing unpleasant jobs.
- It does not promote arts, as production and agriculture become the core of the economy. A great musician or writer may end up working in mechanical works.

Consumers

- Lack of technology impacts the quality of all services provided: mail, healthcare, education, government services such as the legal system.
- Bureaucracy impacts consumers and civilians who need government services, which may be difficult and slow to obtain.

Resources

- Inability or lack of incentives to produce world-class resources.
- Inability to generate world-class science and technology for lack of incentives and lack of competition.
- Lack of a knowledge-learning system can not provide feedback to the producers, what the consumers want and need, whether the consumers like what is being produced.

The genesis of collectivist cultural values

According to Hofstede, in collectivist societies, families are extended, the group (we) is the primary source of one's identity. It provides security in the face of life's difficulties; a relationship develops between the person and the group.

According to Hofstede, in collectivist cultures, children remain in the same activities as extended families. Children are expected to be obedient to parents and respect them; a child is rarely alone during the day. Independent behavior is not encouraged; direct confrontation is considered rude and undesirable. Personal opinions do not exist: they are predetermined by the group. Non-compliance means bad character. Members can share income; education can be paid for by the group. Losing face is highly critical: the social context is powerful.

According to Hofstede, in school, students do not speak during class, groups should do it. Education is teacher-centered, with little two-way communication. Students from the same family or ethnicity as the teacher will expect better treatment. Confrontations should be avoided, face should not be lost.

According to Hofstede, in the workplace, an employer never hires an individual, but a person who belongs to an intra-group, the employee will act in the interest of this intra-group. Preference is given to hiring relatives, first of all, of the employer, as it reduces risk. Poor

performance is not a reason for dismissal; loyalty and protection are key ingredients of the relationship. Ethnicity in groups must be reinforced. A relationship of trust must be established before anything else. Superiors and subordinates are seen as unequal. Organizations centralize power to the maximum in a few hands; subordinates are expected to be told what to do; the ideal boss is a benevolent autocrat, a good father, who can be adored or despised with intense feelings.

According to Hofstede, in the state, the weaker the individualism in the mental software of the citizen, the greater the likelihood that the state will have a dominant role in the economic system. Power is considered a basic fact of society that precedes the choice between good and evil; it prevails over rights. There is an order of inequality in which everyone has his place. The powerful are entitled to privileges, and they are expected to use their power to increase their wealth; their primary sources of power are family and friends, charisma, and the ability to use power, as in military dictatorships. The way to change them is through revolutions.

The link between collectivism and a subjective idealist epistemology

According to the Encyclopedia Britannica, collectivism in politics "is that part of the political spectrum generally associated with egalitarianism and popular or state control of the major institutions of political and economic life. Leftists tend to be hostile to the interests of traditional elites, including the wealthy and members of the aristocracy, and favor the interests of the working class. They tend to regard social welfare as the most important goal of government. Socialism is the standard leftist ideology in most countries of the world; communism is a more radical leftist ideology."

Hofstede shows the strong connection between cultures and politics:

In collectivist societies: opinions are predetermined by group membership, collective interests prevail over individual interests, state has dominant role in the economic system, low per capita GDP, companies are owned by families or collectives, private life is invaded by group(s), laws and rights differ by group, lower Human Rights rating, ideologies of equality prevail over ideologies of individual freedom, imported economic theories are unable to deal with collective and particularist interests, harmony and consensus in society are ultimate goals, patriotism is the ideal, outcome of psychological experiments depends on in-group–out-group distinction.³¹

The following thinkers laid the foundations of subjective idealism:

- René Descartes: methodical doubt; reason, logic, are necessary to construct reliable knowledge.
- Baruch Spinoza: rationalism, three kinds of knowledge; the highest is the intuition of God, love, and bliss, knowing essences as caused by God.
- George Berkeley: subjective idealism, all objects are ideas.
- Gottfried Wilhelm Leibniz: innate a priori ideas, truths of reasoning
- Immanuel Kant: transcendental idealism, a priori knowledge, existing in mind, subjectivism is fully established as epistemology, the laws of nature are a mental construct.
- Johann Gottlieb Fichte: from subjectivism to intersubjectivity, the agreements of rational persons require dialectics; synthesis arises after mutual interaction and the consequent limits imposed by the self and non-self.

³¹ Hofstede, Geert; Hofstede, Gert Jan. *Cultures and Organizations: Software of the Mind*. McGraw-Hill Education. 2010. New York. p. 130.

- Georg Wilhelm Friedrich Hegel: absolute idealism, from the subjective mind of the individual to the collective consciousness, in a historical progression toward absolute knowledge, enriched by the universal spirit (the Geist).

A subjective idealist epistemology

In Western philosophy, subjective idealism is the view that reason is the primary source and test of knowledge. Holding that reality itself has an intrinsically logical structure, rationalists claim that there is a class of truths that the intellect can grasp directly. According to rationalists, there are certain rational principles—especially in logic and mathematics, and even in ethics and metaphysics—that are so fundamental that to deny them is to fall into contradiction (Encyclopedia Britannica).

Subjective idealism argues that some ideas are universal, innate, and others follow logically, mathematically; this had considerable influence on modernity, moving away from the relativism of empiricism. Some ideas are universal, unquestionable: mathematics, freedom, equality, rights, justice, non-discrimination, the rule of law, prosperity for all, security, and religious pluralism; rationalism strives to construct a perfect ideal world.

Strengths of a subjective idealist epistemology

Subjective idealism limits the skepticism and relativism of empiricism. Some ideas are universal and unquestionable: mathematics, logic.

It promotes dialogue and understanding, positive evolution and growth of ideas, learning from mistakes, creativity beyond empirical knowledge, and optimism. It promotes education for all. It promotes

higher goals, transcendence, altruism, leadership, and the value of human willpower.

Weaknesses of a subjective idealist epistemology

Although subjective idealism produced universal ideas that became a central part of modern culture, its limitations are evident.

There is no scientific foundation for its theory of innate ideas. Some people may not accept collectivist proposals, while others would take advantage of them. Their innate ideas without proof or justification may lead to collective actions that sacrifice the individual, leading to tyrannies, wars, terrorism, and mass murder. Subjective idealism can deny reality: people have needs, desires, and interests; people can be selfish, mean, harmful, and destructive.

The following analysis focuses only on the two main icons of subjective idealism: Kant and Hegel.

Rosmini criticizes Kant's rejection of causality by making the objects of thought subjective:

Rosmini recognizes that Kant's greatest achievement is to have seen, with greater insight than other thinkers, the essential difference between the two operations of the spirit: feeling and understanding. Thus, according to Rosmini, what Kant understood well was that the understanding is active and the sense passive; that the senses provide the matter and the intellect the form; and that intuitions depend on the senses; concepts, on the other hand, depend on the functions. However, Rosmini argues, Kant was wrong to make the objects of thought subjective. And the problem (ideological, Rosmini calls it) lies in the fact that Kant rejects belief in causality as a fact, since one would have to believe in it in order to accept that entities appear to us as they really are. Why is Kant wrong? Because by not accepting the principle of causality as something external, he is inclined to think that it comes from within, from the spirit, that it is almost a creation of the spirit itself.

That is why Rosmini, recalling Kant's thought, warns that this philosopher does not find anything halfway between the senses and the intellect to explain knowledge. He thus creates what Rosmini calls the problem of the bridge between the interior and the exterior, when in truth for him there is no such problem. What Kant does, according to Rosmini, is to separate the senses from the intellect and, therefore, by separating the intellect from the senses he loses the connection with reality. Hence the importance of causality which makes us present entities insofar as they affect us.³²

Dewey criticizes Kant for not accepting the role of experience and psychology:

A central criticism of Kant is that he lacks an adequate psychology of experience. This lack, pointed out by Hegel and his successors, concerns the ontological and transcendental foundations of Kant's concepts of experience; the pure, transcendental, a priori nature of his categories. Since Kant does not draw them from experience, Dewey criticizes him for producing a fissure between the existentially real world and the knower who perceives it.³³

Charles Taylor considers Hegel's thought to be dead:

Why is Hegel's central thesis dead? And why, at the same time, is his philosophy highly relevant for our time in a whole series of respects, as I have tried to show in the course of this paper, and as current interest attests? In this final chapter I would like to attempt to give an answer to this twofold question. Normally one might

³² Vargas, Jorge Alfonso. Kant's errors. Rosmini's critique of Kant's transcendental idealism. *Journal of Arts, Letters and Philosophy*. Universidad de Los Lagos. 2010. p. 3.

³³ Johnston, James S. Dewey's critique of Kant. *Transactions of the Charles S. Peirce Society*. Vol. 42, No. 4. Indiana University Press. 2006. Indiana. pp. 1-2.

expect the conclusion of a book on Hegel to dwell on the succession of influences on his thought and the new outlets it has provoked. But the central items on the list-Marx, Kierkegaard, existentialism, among others-are too well known, and the full list is too long" for this to be worthwhile. It would be more useful to try to account for their continuing relevance by seeing how the basic problems and aspirations underlying their philosophy have evolved since their time. For this is what we need to find an answer to our double question, how his thought can remain important while his conclusions are quite neglected.

Part of the answer to the question of why Hegel's ontology was abandoned lies in the development of modern civilization in an increasingly industrial, technological, and rationalized direction. This civilization is in a sense the heir of the Enlightenment. Now, although Hegel's philosophy claims to be the culmination of Enlightenment thought, it actually tries to combine with it, and with each other, two currents of thought and sensibility which were both reactions to and extensions of the Enlightenment. If we return to its basic intentions, which we explored in the first chapter, Hegel's philosophy can be seen as an attempt to realize a synthesis that the Romantic generation was groping for: to combine the rational, self-legislating freedom of the Kantian subject with the expressive unity within man and with nature that the age longed for.³⁴

Cornelio Fabro presents an articulate critique of Hegel. Fabro affirms the importance of Hegel for his impact on modern thought:

If we merge the Hegelian speculation into a systematic unity, we merge the critical, metaphysical and theological instances of modern thought, in an attempt -never before attempted in these proportions- of a synthesis of universal value. Its unitary conception of the life of the spirit, the centrality that Christian thought

³⁴ Taylor, Charles. *Hegel*. 1999. pp. 538-539.

assumes in it as the contributor of the concept of truth and radical freedom by mediating between basically cosmological Greek thought and essentially anthropological modern thought, place it at the pinnacle of Western thought from which all the other forms of thought that have followed it stand out in a positive or negative way. Indeed, the free person must come to see himself as the vehicle of universal reason; and when the State comes to its full development as the embodiment of this reason, then the two are reconciled. Indeed, the free person cannot realize himself as free outside the State.³⁵

Fabro explains how Hegel's gigantic intellectual construction collapsed:

An intensity of themes and a richness of developments that has remained only in Hegel to crumble immediately. After his death: the great edifice of the Hegelian dialectic has crumbled of itself. It is not difficult to show how, considered from any place, the Hegelian dialectic presents a fundamental ambiguity.³⁶

Fabro presents three dimensions to explain the reason for this collapse:

It is affirmed that truth is "resultant", it is in the Whole, truth is the whole, and then one must affirm that the Absolute is present from the beginning, and functions in the background, that the Absolute is a unity of positive and negative, of finite and infinite. Not to mention the methodological ambiguity of wanting to eliminate any content from immediate experience, and then to leverage on concepts such as "movement", "force", "disappearance", etc.,

³⁵ Fabro, Cornelio. *La Dialettica di Giorgio G. F. Hegel*. Antologia Sistemica. Editrice del Verbo Incarnato. 2012. Italy. p. 80.

³⁶ Ibid.

which derive solely from that experience. Thus Hegel has not solved the fundamental problem of philosophy, that of the relation between sense and reason, between particular and universal.

In the Hegelian conception of the life of the spirit, the highest form or life of consciousness is not religion, but politics, as it is put into practice in the history of peoples and in the various civilizations: the absolute Spirit and the Spirit of the world, the unique person of history, to which the spirit of each people is subordinated, and to which the individuals are subordinated. Thus God, the Spirit of the world, is the absolute-human who dominates nature. [...] Hegel thus defends the subordination of religion to politics and of the Church to the State: the concept of the immortality of the person has no theoretical foundation, but derives only from the extrapolation of a fantastic desire.

The extreme of this divergence and in the very notion of being: while idealism affirms a "being of consciousness" and therefore speaks of a determination or foundation of being by consciousness, realism speaks of "the science of 'being'" and therefore of a determination and foundation of consciousness by the being that is act, foundation and principle of every principle.

Therefore, we may conclude with Heidegger, the pure activism of the followers of idealism and the reduction of the idealist principle to its essentiality is the unveiling at the same time of its intrinsic impossibility.³⁷

More or less directly, not only the Hegelian right and left that dominate the German philosophical scene in the first decades after Hegel's death, but the opposite directions in which the philosophy of the second half of the nineteenth century moves and, above all, the standard-bearers of collectivism that are Feuerbach and Marx and the solitary philosopher that is the Dane Soren Kierkegaard, recognized initiator (although later deeply betrayed!) of existentialism, the first two are positively and negatively the latter in Hegel's

³⁷ Ibid. pp. 80-83.

orbit. Morton White's acknowledgment is significant in this regard: "Hegel has not only influenced the founders of Marxism, existentialism, and instrumentalism - now three of the world's most popular philosophies - but has at times dominated the founders of the more technical movements, (such as) logical positivism, [Anglo-American] realism, and analytic philosophy." He concludes: "The point is that Karl Marx, the existentialist Kierkegaard, John Dewey, Bertrand Russell and G. E. Moore were sometimes rigorous scholars of Hegel's thought, and some of their most characteristic doctrines reveal the trace or signs of the struggle's previous contact with this strange genius".

There is more: also phenomenology, neopositivism, the philosophy of language with neoexistentialism and neo-Marxism and the other minor philosophies of the 20th century refer more or less directly to Hegel, developed implicit instances and implemented new ways of thinking never firm in themselves, such as the essence of freedom that is dialectics. Even accepting Kierkegaard's paradoxical judgment that Hegel was not an essential thinker but only a "teacher", it is beyond doubt that he was a teacher much listened to and followed and that his works were -for Kierkegaard himself after all- and continue to be the obligatory step to grasp the sense of crisis of the modern and contemporary world and of the disturbing instability that characterizes because the "contradiction" that Hegel posed as a law of reality, today the new generations declare - and in this it certainly has the pretext and the foundation of coherence - to bring it to its end.³⁸

A leadership culture relies on a realist epistemology, which reduces the division generated by the confrontation between the right and the left

³⁸ Fabro, Cornelio. *La Dialettica di Giorgio G. F. Hegel*. Antologia Sistemica. Editrice del Verbo Incarnato. 2012. Italy. pp. 15-16.

A leadership culture relies on a realist epistemology which helps to reduce the social fragmentation and radicalization generated by the confrontation between left and right, empowered by social media and populism.

According to realism, people perceive diverse aspects of the same reality. Looking at an apple, an economist can see an economical product subject to supply and demand, a poet a piece of life, a philosopher a being with substance and accidents, a scientist a set of tissues and molecules, and a hungry person will see something delightful to eat and enjoy. So, what is an apple after considering so many different perceptions?

Empiricism does not have a way to articulate perspectives that are not practical, based on the senses. Subjective idealism cannot articulate chaotic information, is non-rational, and is incapable of capturing the richness of reality. Empiricists and idealists have a hard time understanding each other, which leads to social disintegration, relativism, fanaticism, and conflicts.

A realist epistemology has three main foundations, enabling dialogue with everyone, no matter their epistemology. Aristotle's realism has an empiricist orientation, Plato's realism has an idealist orientation, and 20th-century phenomenology understands that reality is manifold, it manifests by different phenomena; each person can perceive different phenomena differently, perceiving some aspects of reality better than others.

We can build mechanisms to integrate and harmonize people's perceptions to understand each other and get closer to the truth. We can set communication channels among persons, reflection, contemplation, meditation, intuition, symbols, metaphors, hermeneutics, analogies, affections, emotions, and empathy; even though we all have different ways to perceive reality, we can find mechanisms to have a shared understanding of reality.

A realist epistemology promotes a rich humanism, with greatness and leadership, relying on consciousness, reflection, meditation, and contemplation, based on its capacity to promote richer perceptions,

judgments, feelings, language, words, and symbols (Husserl), wisdom (Fabro), transcendence, connecting the person internally, with others, and with the world (Bouyer), values, morality based on higher values such as justice, right, beauty, knowledge and truth, and religious beliefs (Scheler), empathy that leads people to live the experiences and feelings of others (Stein), relationships, a community based on the heart, the desire to give oneself to the other, to seek the happiness of the other, to participate in the goodness of the other (Von Hildebrand), dialogue, communication, encounter (Buber), social integration, human relationships, a return to the world, and a world at peace (Arendt), the meaning of human existence, people as members of a human community, sharing experiences, and accepting differences as we all walk toward truth (Heidegger), shared existential understanding, and a fusion of horizons (Gadamer), ethics based on relationships, human encounter (Levinas), the value of the person, community participation, social engagement, social action (Wojtyła).

A realist epistemology reduces the social division and fragmentation generated by the opposition between cultural values, ideologies, individualism versus collectivism, and opposing political economy views, the right versus the left.

There is no room for the endless social fragmentation, radicalization and confrontations if each person and community has leadership, supported by a realist epistemology, that helps us to connect internally and with others, to share knowledge, to build shared wisdom, shared transcendence, to discover that we are valuable, to share higher values, to build relationships, shared discernment, social transformation, social healing, social action, social change.

We live in a multicultural world, a complex and diverse world, in which we need to articulate everyone's knowledge in complex organizations and nations: diversity enriches organizational and national views, but it is a challenge, hence we need a realist epistemology to solve it.

Toward world peace

The better social outcomes, eliminating the confrontations, radicalization, and social fragmentation caused by the disagreements between opposite cultures, lead to world peace.

World peace results from a leadership culture that provides social capital, promoting the law, order, and trust, strengthening democratic institutions, defending democratic principles of dignity, equality, and mutual respect for men, promoting education for all, employment for all, promoting a culture of justice, liberty, cooperation, solidarity, dialogue, and peace, reducing social fragmentation.

World peace results from social capital generated by interdependence, as Roy Weatherford³⁹ describes: economic interdependence (globalization, multinational corporations, economic integration), cultural interdependence (global culture, English as a common language, global citizenship with global music, global foods, clothes, cars, information and communication technology, knowledge sharing, global education, social media) and environmental interdependence (global sustainability).

Roy Weatherford⁴⁰ defends that peace is multifaceted. World peace starts as an ideal, led by world religions promoting a human family and by idealist philosophers promoting a world order led by global institutions such as the United Nations. World peace is led by some nations, such as the Pax Romana and Pax Americana. World peace is promoted by economic interdependence, globalization, multinational corporations, and economic integration.

Antony Adolf⁴¹ considers that fulfilling personal needs drive world peace. Leadership promotes world peace: corporeal peace based on better education, healthcare, sanitation, nutrition, socio-economic

³⁹ Weatherford, Roy. *World Peace and the Human Family*. Routledge. New York. 2002.

⁴⁰ *Ibid.*

⁴¹ Adolf, Antony. *Peace. A World History*. Polity Press. 2009

peace based on reduction of wealth disparities, discrimination, unemployment, and sanctuary peace based on minimal harm against nature, state, structural, inter-personal.

Adolf considers that world peace is the result of ongoing investigation, innovation, critical dialogue, incentives deterrents, legitimacy, and law:

“The two topmost items are in some ways only practical when those below are met and in other ways need to be practiced for them to be met. Finding food is an investigation of some kind, and debating where to eat it is a form of critical dialogue, but these are only partial senses of how these items are taken here. Innovation, adaptation and perpetuation are the goals of ongoing investigation into, and critical dialogue about, what peaces are and how they are to be made, maintained and combined.⁴²

Ongoing investigation, innovation, critical dialogue, incentives deterrents, legitimacy, and law result from:

- Involving consciousness, meditation, and contemplation in our knowledge creation, creating a richer knowledge with a human orientation, connecting us internally and with others, enhancing our perceptions, helping to know the truth, enriching our communication, integrating persons and communities, building shared knowledge and ideals among diversity and complexity, generating emotional feelings, reducing personal and social fragmentation, promoting humanism, social integration, and social harmony, producing personal inner peace and social peace and harmony.
- Our appreciation of transcendence, leading us on a shared journey toward creating transcendence and love.

⁴² Ibid. p. 259.

- Our conscience connecting us with our inner self and others, discovering that we all have transcendence, building higher values, building affections, building trust, reducing cultural opposites, and promoting social harmony.
- Our capacity to connect with god and experience god's loving presence in our life's journeys, promoting inner peace, love, forgiveness, compassion, community building, social integration, the golden rule, eliminating disruptive emotions, discovering god's perfections, transcendence, and love, realizing that we are his masterpieces, made in his image, collaborating with his creation, transforming reality, and making reality more beneficial to humankind, building community life and perform social actions.
- Our consciousness making us relational, generating feelings, values, and love, which lead us to build relationships, and communities, promoting social integration, social commitment, and social harmony.
- Our discernment, relying on our rational, emotional and spiritual intelligences, and the dimensions of spirituality discussed in this book, consciousness, better knowledge, life journey, higher values, religiosity, and our relationships and communities, leading to social transformation and social action.
- Our spirituality providing meaning to our lives, considering our existence as a journey to transcendence and love, accepting suffering for a higher purpose, as part of our growing spiritually, as part of non-attachment, as part of our journey towards transcendence and love, of our journey towards god, as part of living a life with values, as part of our relationships, as part of our transformation, as part of social actions, accepting suffering to test our authenticity, overcoming and transforming suffering.
- Our transformational journeys, making us passionate to create, recreate, perfect, reform, purify, enlighten, uniting us internally

and with others, building values, motivation, and love, transforming our ethics, promoting social inclusion, cooperation, compassion, solidarity, and social action.

- Our physical, emotional, and spiritual healing and our role in helping others in their healing.
- Our social action, connecting us with our souls and others' souls, alerting us to the need for compassion, valuing and serving the community, and involving us in modern life's complexities, promoting social action, a missionary lifestyle, going out to people in the margins.

According to Sharp,⁴³ “most theories about the cause of war fall into one of two major conventional schools of thought: the first attributes war to “innate biological and psychological factors or drives” and the second to “social relations and institutions”.

Sharp’s second approach is responded by political economy. It focuses on the role of power, ideologies, political and economic systems, social and economic inequality, and confronting national interests as sources of conflicts.

Political economy proposes two views.

Sharp summarizes the liberal approach: “they believe that the existence of a basic harmony of interests and economic cooperation among nations would minimize the incidence of wars. A major tenet of classical liberals was universal suffrage because they believe that people could vote any belligerently inclined government out of office”⁴⁴.

⁴³ Sharp, Dr. Walter Gary. *Democracy and Deterrence. Foundations for an Enduring World Peace.* Air University Press. Maxwell Air Force Base, Alabama. 2008.

⁴⁴ Sharp, Dr. Walter Gary. *Democracy and Deterrence. Foundations for an Enduring World Peace.* Air University Press. Maxwell Air Force Base, Alabama. 2008. p. 23.

Sharp summarizes the socialist approach: “socialists analyzed the socioeconomic system of states as the primary factor in determining the propensity of states to engage in war. Socialists such as Karl Marx attributed war to the class structure of society”.

Francis Fukuyama, following a Hegelian intuition, considered that both views converge in a mix of both:

The twentieth century saw the developed world descend into a paroxysm of ideological violence, as liberalism contended first with the remnants of absolutism, then bolshevism and fascism, and finally an updated Marxism that threatened to lead to the ultimate apocalypse of nuclear war. But the century that began full of self-confidence in the ultimate triumph of Western liberal democracy seems at its close to be returning full circle to where it started: not to an "end of ideology" or a convergence between capitalism and socialism, as earlier predicted, but to an unabashed victory of economic and political liberalism.⁴⁵

Hegel's historicism has become part of our contemporary intellectual baggage. The notion that mankind has progressed through a series of primitive stages of consciousness on his path to the present, and that these stages corresponded to concrete forms of social organization, such as tribal, slave owning, theocratic, and finally democratic egalitarian societies, has become inseparable from the modern understanding of man.⁴⁶

Materialism and spirituality seem to find a balance in modernity:

As we look around the contemporary world, the poverty of materialist theories of economic development is all too apparent. And yet the intellectual weight of materialism is such that not a

⁴⁵ Fukuyama, Francis. *The End of History?* The National Interest. 1989. p. 1.

⁴⁶ *Ibid.* pp. 2-3.

single respectable contemporary theory of economic development addresses consciousness and culture seriously as the matrix within which economic behavior is formed. Failure to understand that the roots of economic behavior lie in the realm of consciousness and culture leads to the common mistake of attributing material causes to phenomena that are essentially ideal in nature. But while man's very perception of the material world is shaped by his historical consciousness of it, the material world can clearly affect in return the viability of a particular state of consciousness.⁴⁷

Many Nobel Peace Prizes were awarded to leaders with a political economy orientation, such as Maria Ressa and Dmitry Andreyevich Muratov (“for their efforts to safeguard freedom of expression, which is a precondition for democracy and lasting peace”), Juan Manuel Santos (“for his resolute efforts to bring the country’s more than 50-year-long civil war to an end”), European Union (“for over six decades contributed to the advancement of peace and reconciliation, democracy and human rights in Europe”), Nelson Mandela and Frederik Willem de Klerk (“for their work for the peaceful termination of the apartheid regime, and for laying the foundations for a new democratic South Africa”), Office of the United Nations High Commissioner for Refugees (“for promoting the fundamental rights of refugees”), among many others.

⁴⁷ Ibid. pp. 7-9.

FINAL REFLECTIONS

May this book help to transform the culture and political economy.

Hopefully a new leadership culture will emerge all over the world, transforming the political economy and providing human, social, process, and renewal capital.

Hopefully we all realize how a leadership culture relies on a realist epistemology, which promotes social integration, overcoming the epistemological limitations and confrontations between individualist and collectivist cultural values, between the right and the left.

Hopefully a new agenda emerges worldwide, with the political parties promoting a leadership culture.

Hopefully a leadership culture transforms mature democracies, especially in countries where the political parties have strong confrontations, which lead to social fragmentation, promoting their integration, or creating a third political party with a leadership agenda.

Hopefully a leadership culture transforms young democracies with weak democratic institutions, so the people in these countries can build a new civic and political culture, promoting economic growth, social justice, and social integration.

Hopefully a leadership culture promotes world peace based on economic growth and social justice, based on the termination of the endless conflict between the two ideologies of individualism and collectivism and the exhausting disagreement between right and left.

Hopefully a leadership culture promotes world peace, promoting dialogue with all epistemologies, with all ideologies, with all cultural values, building better knowledge, stronger relationships, promoting social integration, smoothing and harmonizing tensions between right and left, between different sectors of society, promoting social cooperation, subsidiarity and solidarity, promoting the common good, strengthening democratic institutions, reducing populism and social fragmentation.