An Investigation into Investing for a Virtuous Economy and Enhancing God's Economy

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There is a law in economics known as Grisham's Law. The idea behind this law is both simple and true. When a coin is minted with a pure, 99.9 percent, noble metal such as silver, the value of the silver guarantees the face value of the coin. People will accept the value of the coin and price their products and services relative to the coin's value. However, if the minting authority introduces alloys that have no inherent market value to be introduced into the coin's minting, then the value of the coin devalues. Devaluation requires more coinage to buy the same level of products and services. This is inflation and it exploits the most vulnerable in society. Inflation and manipulation of money distorts asset values, undermines social trust in economic institutions, and ultimately creates, or exacerbates, inequality, injustice, and encourages degradation of God's creation. Inflation can be induced by several causes but can only be sustained by governmental fiscal and monetary policy. Milton Friedman's coined the term in 1963 that inflation is always a monetary phenomenon. Essentially, government is using bad money that drives out good money.

It is evident that using "bad" metal drives out the "good" value of the coin. The alloy content is an impurity to the good metal is also known as dross. Interestingly, we read in scriptures of this phenomenon in both the Old and New Testament. It is both a historical reference as well as a metaphor for people and society. Sin, or dross, corrupts a person's soul and these evils can corrupt a society. So too, does government mismanagement of the economy or investor short-run return behavior, and ignorance, create dross in society. It is equally true that bad consumption rewards companies that take short-cuts that exploit workers, communities, the environment, and consumers by offering cheap prices to lure in consumers and drive out responsible companies in the market. Responsible companies that do not take short-cuts and spend the money to care for workers and the environment as well as providing long-term value to customers. Grisham's Law is actually an observation that accepting the *bad* in society can drive out the *good* is society. Doing good is a choice, and not always the easiest short-term choice, but it is always the best long-term choice. The good choice applies equally to daily actions, professional life, and economic activities. Practicing right choice is part of the salvific process inherent in God's Economy. The right choice is a learned activity.

The prophet Isaiah noted the choice phenomenon that bad drives out the good in money, people, and society writing, “Your silver has become dross.” (Isa 1:22). Isaiah then goes on to illustrate how this dross also infects people’s character and society (Isa 1:18-24). With a voice of authority Isaiah states that the remedy is to “smelt away your dross with lye and remove the alloy.” (Isa 1:25-26). Smelting is a heating catalyst that is used by metallurgists to remove dross. Throughout scripture God is also described as fire and prompts each of us to remove, or smelt out, the dross in our character. In Malachi we read, “But who can endure the day of his coming? Who can stand firm when he appears? For he will be like a refiner’s fire, like fullers’ lye.” (Mal 3:2)

We see repetition of this metaphor throughout the scriptures (Ezek 22:18-22; Jer 6:28-30; Prov 17-3; Prov 25:4; Dan 12:10; Mal 3:2-3; 1 Pet 1:7; Matt 3:11-12; and Luke 3:16-17). St. Francis refused to handle money. There are several key reasons. First, St. Francis felt the true value of a gift of time, talent, or a needed good was obscured by money. Second, the use of dross in money received as wages by commoners diminished their real buying power – deflated wages and value of their labors. The social elite used noble metal coins that retained value. St. Francis rejected this monetary exploitation. Francis understood well that justice, stability, and care for God’s Kingdom required a different form of investing. Investing in humans, the poor, and in justice itself. This form of investing is a stabilizing agent in society. Early mendicants used the goodwill of the community as well as their hard work to underwrite this investment. But the community’s shared contributions created a real investment return - humanitarian, social, and economic.

In a modern context, the use of dross in money has serious implications. Dross is the contaminant that undermines both investing and the achievement of a *virtuous economy* that supports God’s Economy. How does this dross contaminate and undermine the economy and investment?

If businesses focus singularly on short-term profits enriching a small elite segment of a population, then long-term investment is diminished. The short-term singular focus creates economic cycles, typically referred to as business cycles, which release the pressures caused by short-term profit (rent) seeking and wealth consolidation among the elite. Specifically, unemployment, underemployment, demand gluts, excess profits that distort value relationships, increased use of debt, and ultimately distorting the function of the market itself. Over the past seventy years, most central governments have used fiscal and monetary policies to engender market trust and function to alleviate market pressures that lead to business cycles. Many of these policies were sold as investments in human dignity that stabilized

society. However, both the trust and efficacy in central government economic and social policy actions have eroded. This social erosion creates new pressures to reap short-term returns that complicate the long-term investment return horizon. There really is no way to discuss sustainable economic growth, market function, care of God's creation, and human dignity without addressing all comprehensively. There are no short-term magic investment strategies that can comprehensively solve the ills we face. Collectively, we have been *educated* into thinking that man can construct high performing portfolios that can shield risk in retirement, protect us from market shifts, and counter the ills of poor government actions and the inherent risk of life. The sad truth is that society, the environment, and the economy are all linked, or correlated. These same investment actors that promised shielded returns turn to the government to use fiscal and monetary action to right the investment environment when the inevitable happens – social friction driven by short-term investing mentality creates social and economic correction. It is the long-term, comprehensive, intentional, and virtuous choices in consumption and investing that can drive long-term social and economic stability.

Is it possible to invest strategically where a portion of a portfolio, or a complete investment portfolio, is established in such a fashion to foster virtuous business operations that create optimized overall returns while addressing social issues comprehensively? The answer is yes! A virtuous business environment that mitigates both the business cycle and alleviates global wealth inequalities can be crafted – but it must be addressed in three interrelated parts: the agents, virtuous consumption, and virtuous investing. There must also be a catalyst to drive the economic actors toward long-term virtuous choices and actions.

The first part of this whitepaper addresses why the government cannot be the major agent to drive change. They have tried and failed! They can, and should have, a supportive regulatory, oversight role, and backstopping role. Who can be the agents of change? The economic actors in a free market are the agents of change. This virtuous market-driven action begins with virtuous consumers and extends to investors who literally change the nature of the market from one of consumption-driven *extractive investing* to a virtuous approach that sustains human dignity, creation, and shares the graces of God's Economy equitably.[1] The second part of this paper addresses how investors can, and should, increase their

[1] Cf David B. Couturier, OFM. Cap., "The Education of Business Leaders and the Centrality of the Poor in the Social Teachings of Pope Francis." *Education catholica*, 2019, 197-210. Education of business leaders to think in terms of human dignity, God's creation, and social justice is central to institutional shifting. The effects of market transformation must be reinforced through integration of Pope Francis' social teachings as part of formal and informal education processes. For a review of how market transmission mechanisms can foster virtuous change that transforms business leadership and market positioning see Roderic Hewlett, *The Virtuous Economy: Reforms in the Franciscan Tradition*. Franciscan Institute Publications, 2022.

portfolio to include firms that demonstrate virtuous behaviors that yield above average long-term returns. Returns that are shared with stakeholders that create these long-term returns. The very act of expanded shareholder sharing returns stabilizes the market, reduces inequality, encourages virtuous social behaviors, and reduces market volatility. The catalyst is Catholic, and like-minded, consumers and investors that are educated and armed with the tools to fuel virtuous choice and transmit their choices through the global economy and social landscape. Pope Francis, rich in the Holy Spirit, is calling us. Will we Franciscans and Catholics answer?

Can investing be tailored to overcome the limitations of Milton Friedman's doctrine that fosters the supremacy of profit and shareholder's short-term interests in a business? Can secular financial intermediaries' investment strategies and actions yield a more balanced and sustainable return for shareholders and stakeholders?[2] The answer is yes, and the market-based tools and empirical evidence already exist.

To understand this new investment approach requires a brief economic journey through government's increased involvement in the economy over the past decade. A short but revealing review of the challenges created by an erosion of trust and effectiveness associated with government's social and economic interventions. After all, trust is the elixir of investing and the context for expected returns. A lack of trust in the underlying economy stalls investment. Stalled investment often results in fewer economic opportunities and ultimately fewer economic options for people. Ineffective government policy stifles real investment. Investments that are necessary to power social justice and sustainable economic growth.

After exploring the central issues in the current trust-economic policy environment, a quick review of research and practices illustrate how virtuous businesses enhance investment returns, flatten economic cycles, and provide for the overall growth in wealth as well as the distribution of wealth. The process of removing the dross from businesses, consumer habits, and economic policies is the pathway to implement a sustained, market-driven, and just model of global investing that provides enhanced returns and adds support to an earthly economic framework of support for God's Economy.

Trust and Institutional Effectiveness

In 1956, the United States Congress made *In God We Trust* the official motto of the United States and it was emblazoned on currency. Trust in God is reflected by a commitment to human dignity and all of God's creation. Catholic Social Teachings place human dignity as a central feature of social activities.

[2] Milton A. Friedman. "Friedman Doctrine: The Social Responsibility of Business Is To Increase Its Profits." *New York Times.* September 13, 1970.

Pope Leo XIII discussed the critical relationship between the economy, economic activities, and human dignity with great clarity in his Encyclical Letter Rerum Novarum[3].

Pope Leo XIII laid out the damages wrought on human dignity by socialism as well the excesses of unchecked capitalism. He argued for a system of economics embracing the dignity of humans without exploitation. A system that engenders trust, upholds justice, and seeks appropriate charity that contributes to furthering a human's "higher life" leading to "the preparation of the eternal life of heaven." Leo XIII put forward a rightful role of government, the state, to protect these temporal and eternal dignities of humans through economic life.

Leo XIII's economic exhortations are extended through encyclical letters by Pius XI[4] and John Paul II[5]. Pius XI wrote during the Great Depression. John Paul II wrote during capitalistic excesses of the late 20th century and called for a *third way* rejecting tyrannical socialism and exploitive capitalism.

All three popes called for a just economic system that engendered trust and human dignity. But what was the measuring stick of human dignity and definition of trust to guide *state* activities and society toward achieving such a vision? Francis of Assisi provided a glimpse. He rejected economic exploitation, a hallmark of Medieval Assisi as it transitioned from an agrarian feudal economy to an early form of capitalism. Francis and his fellow Franciscans enlightened by the Holy Spirit crafted a brilliant path forward to attenuate the effects of corruption in the Church, economic exploitation, and suffering by the outcasts of Assisi. All accomplished while living in the most simplistic manner. The complex problems of society were addressed through simplicity itself. The Franciscans became synonymous with the concepts of simplicity, holiness, charity, mercy, faith, humility, and trust.

Franciscan Institutional Framework for Trust and Resource Allocation

The argument for Francis' successes in building trust can most accurately be described along three critical dimensions. First, simple living and immediate proximity to those to be served: poor, outcast, and sick. Simplicity and proximity are critical in establishing *effective* and *trusted* assistance to those in need. Second, rebuilding of institutions required accepting the established norms, customs, and laws. Francis chose to work within the existing Church and social frameworks to achieve reforms. And third, the early Franciscans were consistent in their behavior and cognizant of unintended consequences of their actions.

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[3] Leo XIII, *Rerum Novarum*, (Vatican City 1891). Paragraph 40.
[4] Pius XI, *Quadragesimo Anno,* (Vatican City 1931).
[5] John Paul II, *Centesimus Annus,* (Vatican City 1991).

They sought to serve in the footsteps of Christ, and their actions were driven by Christ's teachings, examples, and insights: His Truth.

Francis' actions were initially viewed as odd. Francis, and the growing Franciscan family, were accepted as holy contributors to the Assisi community. The Franciscans became *minors* in society to serve the *minors* of society. Three specific examples illustrate these key points[6]:

- Francis, without recruiting, gathered the most noble, knowledgeable, and wealthy in his community to his mendicant cause. This passive recruitment reflected a *revealed preference* by those who joined or supported Francis. It revealed a profound trust in Francis and his cause.
- The community support of the Franciscans at the Chapter of Mats reflected the active support and trust of the Franciscans and their mission of love. Over five thousand Friars without provisions were fed by the inhabitants of Perugia, Spoleto, Foligno, Assisi, and the region.
- The risky peacemaking journey that led Francis to meet with Sultan Al-Malik al-Kamil of Egypt led to cessation of undue bloodshed between the Sultan's forces and the Crusaders. The Sultan trusted Francis and his sober purpose of goodwill.

Trust fostered through consistency of actions; radical empathy and devotion to others rather than self; and absolute integrity became hallmarks of the institutional fabric of Franciscans. Franciscans sought to heal and help through interdependence and mutual love. Franciscans rejected independence or dependence in their holy mission of charity and mercy. *Interdependence* became the bonding institutional glue for the Franciscan fraternal economy.[7]

Franciscans mastered building institutional trust and efficacy. That mastery, and associated principles, is the linking mechanism between Franciscan economic tradition and implications for United States fiscal and monetary policy. These institutions of trust allowed for tremendous social and ecclesial reforms as the Franciscans, led by example, highlighted the paths to a social higher ground and *human dignity*.[8]

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[6] Omer Englebert. *St. Francis of Assis: A Biography*. (Franciscan Media: Cincinnati, Ohio, 2013). 45-60, 177-179, 203-206.

[7] David B. Couturier, "Franciscans and the Common Good: Institutional Integrity and Organizational Virtuousness," in Krijn Pansters and David B. Couturier, eds. *Lesser Ethics: Morality as Goodness-in-Relationship* (St. Bonaventure, NY: Franciscan Institute Publications, 2023, 229-251.

[8] David B. Couturier, "Trust and the Fraternal Economy: Efforts at Economic Reform," in Aaron Gies and Benjamin Winters, eds., *Trust and the Franciscan Tradition* (St. Bonaventure, NY: Franciscan Institute Publications, forthcoming).

According to Douglass C. North, Nobel Laureate economist, institutions guide human activity and thoughts; frame and define choices; and can be formal or informal[9]. These institutions can be written such as constitutions, rule, charters, laws, and other aligning written documents. They can also be informal such as mores, routines, customs, and social habits. These institutions reduce uncertainty and make for consistency in choice. Institutions also frame perspectives of what is and what is not just.

It is important to distinguish institutions from organizations. Organizations can be governments, economic enterprises, clubs, churches, political organizations, and a host of entities. Institutions guide organizations. Excellent institutions craft excellent organizations and vice versa. Organizational sustainability is tied to institutional integrity. Institutions represent the rules that govern, organize, and structure organizations.

Education Performance

In the United States, state and local governments provide the bulk of primary and secondary education funding; however, since the establishment of the United States Department of Education in the 1970s, the United States Government has been providing funding with accompanying regulations for local schools. The process reflects minimal funding by the United States Government with maximum regulation of methods, accreditation, and social policies within schools that accept any United States Government funding. An effective way to assess the policy of United States primary and secondary education versus the outcomes is to view the results relative to other industrialized countries. If US Department of Education funding and policy prescriptions improve outcomes, then an argument exists for Federal involvement. If policy outcomes fail, then the policy efforts are failures. If predicted outcomes fail, then the use of government debt or taxpayer money to fund the policies are misallocated from important alternatives.

Since 2000, the Organization for Economic Development and Cooperation (OECD) has assessed more than half a million15-year-olds around the world through the Program for International Student Assessment (PISA). PISA is administered every three years. Julia Ryan summarized PISA results in her 2013 article in The Atlantic[10]. Ryan noted that on the 2012 PISA assessment, United States students

[9] Douglass C. North, *Institutions, Institutional Change and Economic Performance,* (Cambridge University Press: Cambridge, UK, 1990), 3-21.

[10] Julia Ryan, "American Schools vs. the World: Expensive, Unequal, Bad at Math," December 3. The Atlantic (December 3, 2013), https://www.theatlantic.com/education/archive/2013/12/american-schools-vs-the-world-expensive-unequal-bad-at-math/281983/ (accessed May 6, 2022).

ranked 17th in math, 21st in science, and 17th in reading among 34 OECD countries. This has been unchanged since 2000 when PISA began. Ryan also noted that about 25 percent of US students did not reach the PISA baseline level two of mathematics proficiency where students demonstrate proficiency that allows them to effectively participate in productive activities. The United States ranked 5th in spending per student among the OECD countries. A July 2021 National Science Foundation (NSF) report highlights progress in science but noted further deterioration in relative ranking of math performance[11]. The United States students ranked 7th out of 37 OECD countries in science, 5th out of 14 participating OECD countries in computer literacy, and 25th out of 37 OECD countries in math. In relative terms, the United States underperforms peer countries education performance in critical education outcomes.

In absolute terms, the National Assessment of Education Progress (NAEP) tracked performance of 9-, 13-, and 17-year-old students since the 1970s[12]. Comparing 2020 scores with 2012 and 1970s, the scores for reading and mathematics for 13-year-old students increased from 1973 to 2012 and then fell in 2020. The report disaggregates the data among ethnicities and performance levels. The results tend to show mixed results from the 1970s to 2020 depending on ethnicity, performance levels, and subject matter. Changing demographics further clouds the performance picture over the fifty-year tracking period of NAEP. However, demonstrated education skill performance progress in absolute terms is mixed, ambiguous, or diminished. In relative and absolute terms, the United States continues to perform significantly behind international peers in critical education skills despite aggressive policy attempts to improve education outcomes.

Social Results

Seizing upon Okun's declaration that United States Government fiscal and monetary policies should be employed to develop *human dignity*, the United States Government increasingly focused on policies that are designed to improve the welfare of the American people. Unfortunately, the statistics reflect greater instability and degradation among core measures of social wellbeing as measured from the mid-twentieth century to the early decades of the twenty-first century. The data presented is not a reflection on the intention of policy makers, merely the outcomes. Society is too complex to solely attribute social causality to governmental policy. However, that is exactly the point: society is much more

[11] Susan Rotermund and Amy Burke, "National Science Board Science and Engineering Indicators Elementary and Secondary STEM Education." *National Center for Science and Engineering Statistics, National Science Foundation,* (July 8, 2021) https://ncses.nsf.gov/pubs/nsb20211 (accessed May 6, 2022).

[12] United States Department of Education, "National Report Card," *Institute of Education Sciences, National Center for Education Statistics, National Assessment of Education Progress (NAEP)* (2022). www.nationsreportcard.gov.

dynamic and complex than merely a reflection of governmental social policy prescriptions backed by fiscal and monetary policies.

Public trust in governmental fiscal and monetary policies is linked to perspectives of efficacy in achieving the outcomes relative to expenditures. Government taxes current and future citizens' earnings to make these expenditures. Taxation, borrowing, and government spending removes individual freedom of action. Policy prescriptions come with social prescriptions that can be readily viewed as restrictions upon individual free will. As government ignores the maintenance of traditional constitutional-institutional roles to foster social change in a complex society, distrust can become a solvent that dissolves the binding glue of society. Citizens rightly question whether these policies improve society and the economy.

Economists use National Income and Product Accounts (NIPA)[13] to categorize and track sources of economic growth. The sum of unduplicated national geographic income, or expenditures, measures gross domestic product (GDP) a measure of overall economic activity within the borders of a country. All too often GDP is used as a measure of social wellbeing or economic welfare. If a nation spends great sums combatting the effects of drug addiction, family instability, crime, and other social ills, GDP captures these expenditures. Indeed, these additions to GDP are the antithesis of wellbeing. GDP does not measure income inequality, only aggregated totals. If the cost of health care skyrockets beyond the reaches of many, aggregate spending goes up, GDP increases. Okun's gap between potential and actual GDP is not a measure of human dignity, but merely economic activity. GDP measures vice- as well as virtuous-driven spending.

According to the United Nations, during the year 2000 the richest 10 percent of adults in the world owned 85 percent of global household wealth[14]. Canada, the United States, Western Europe, Japan, and Australia top this list of accumulated global wealth. Globally, North America accounted for 34 percent share of the global wealth, Europe 30 percent, rich Asia-Pacific 24 percent and the remainder distributed among the rest of the world. The rest of the world is slightly more than 10 percent of global wealth. Wealth inequalities contribute to social unrest and a loss of trust in economic systems[15].

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[13] In the United States, the NIPA data is produced by the Bureau of Economic Analysis housed in the US Department of Commerce using various surveys and statistical measurements of economic activity in the United States.

[14] Based on data gathered and provided by United Nations University, *Global Distribution of Wealth,* n.d. (https://www.wider.unu.edu/publication/global-distribution-household-wealth), accessed March 10, 2021.

[15] Based on work by Sabina Alkire and James Foster on multidimensional poverty index (MPI) and Amartya Sen's work on MPIs impact on various measures of social stability and development. Cf. Loaiza Ountero, Osmar Leandro, Guberney Muneton Santa, and Juan Gabriel Vanegas, "An Exploratory Assessment of the Relationship between Multidimensional Poverty and Armed Conflict: The Case of Antioquia, Columbia," *Desarrollo y Sociedad* 80 (January 2018): 11-51; Cf. Sabina Alkire and James Foster, "Counting and Multidimensional Poverty

A study by the National Bureau of Economic Research (NBER) in 2009 notes that property is the largest wealth asset followed by financial assets[16]. Research built upon the work of Tom Piketty and Simon Kuznets as compiled in the World Inequality Database (WID) for the United States suggests that the distribution of income in 1820 was eerily like the distribution in 2015[17]. WID's research indicates that the top 1 percent of the income earners in the United States netted 42 percent of total national income in 1820 and 45.7 percent of income in 2015. The bottom 50 percent of income earners garnered 14.0 percent of national income in 1820 and 12.9 percent in 2015. The data showed that for a brief period in the 1970s this earnings distribution gap narrowed slightly and then returned to long-term trends. Income inequality combined with growing global debt is a claim on consumer and taxpayers' future earnings. These future income claims add to the cynicism that destroys trust in fiscal and monetary policy. If expensive government programs with hefty tax and spending reallocations do not build *human dignity,* they are counterproductive.

The International Monetary Funds (IMF) notes that current growth in global debt levels is unsustainable.[18] According to the International Monetary Fund (IMF), the United States post World War II Federal debt as a share of GDP was 78.2 percent largely due to financing World War II. In 1974, the debt to GDP relationship achieved a post war low of 27.51 percent. Since 1974, debt to GDP began to rise. In the United States, Federal Government debt was used to stimulate domestic economic activity, increase funding of social programs, expand military spending, and provide government services. As of 2019, the Federal debt as a share of GDP rose to 92.57 percent. In 2019, the United States household debt to GDP level reached 75.34 percent. This debt must be repaid through future taxation and consumer income. This extraordinary level of debt was undertaken to create the Great Society. What does data reveal about the policies and activities funded by this debilitating level of debt?

Data on divorces, violence, crime, addiction, and other forms of human affliction provide insights on institutional stress and the efficacy of government policy and spending priorities. In the United States, the Center for Disease Control (CDC) measures and records statistics that measure social welfare. Latest

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Measurement," *Journal of Public Economics* 95, no. 7-8 (August 2011): 476-487; Cf. Amartya Sen, *Inequality Reexamined* (Oxford: Clarendon Press, 1992).

[16] James B. Davies, et al., "The Level and Distribution of Global Household Wealth," *NBER* (2009), 12, www.nber.org/papers/w15508.

[17] Data estimated and contained in the World Income Database (WID), www.wid.world/country/usa/ retrieved April 10, 2022. Based on the work and methodology of L. Chancel, and T. Piketty, "Global Income Inequality 1820-2020: The Persistence and Mutation in Extreme Inequality." *WID* (World Working Paper 2021/19); S. Kuznets, *Shares of Upper Income Groups in Income and Savings.* NBER, (1953).

[18] Samba Mbaye, Marialuz Moreno-Badia, and Kyungla Chase, "Global Debt Database: Methodology and Sources," *IMF* (Washington, DC: International Monetary Fund, 2018), imf.org/external/datamapper/datasets/GDD.

trends on marriage and marriage rates highlight a devasting trend for the family[19]. During the year 2000 in the United States, there were 2,315,000 marriages with a population of 281,421,903 for an 8.2 rate per 1,000. The rate declined over the next two decades reaching 2,132,853 marriages with a population of 327,167,434 in 2018. A rate of 6.5 per 1,000. Stable families reflect commitment and order social wellbeing: the building blocks of *human dignity*. According to a 2016 study by the US National Center for Health Statistics,[20] families in the United States have changed over the past half-century. The changes:

- delay in the first marriage,
- increasing rate of divorce,
- increase in unmarried cohabitation before or in-lieu of a formal marriage, and
- higher proportion of births occurring outside of marriage.

During this same period, social acceptance of premarital sex, cohabitation, and divorce have grown. As the traditional family falters, other cracks in the social pavement often emerge such as addiction, crime, and other social maladies.

Drug overdoses in the United States during the period 1999 to 2018, grew from an age-adjusted rate of drug overdose of 6.1 per 100,000 standard population in 1999 to 27.9 per 100,000 in 2018[21]. Government programs to combat drug addiction have not yielded the hoped-for results. Nathan Lee, reporting for CNBC on addiction research by the University of Pennsylvania summarized the disappointing findings[22]. After spending over a trillion dollars since 1971, illicit drug use by Americans ages twelve and older reached 13 percent. United States Government spending on fighting the effects of addiction has risen, not adjusted for inflation, from about $1 billion in 1971 to $34.6 billion in 2020 and expected to exceed $41 billion in 2022. Adjusting for inflation this amounts to a 1,090 percent spending growth over a five-decade period. Overdose deaths were 70,630 in 2019 and exceeded 90,000 in 2020. Government policy, fiscal expenses, and results did not align.

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[19] Source: Center for Disease Control, National Center for Health Statistics, National Vital Statistics System. *Provisional Number of Marriages and Marriage Rate: United States, 2000-2018*. www.cdc.gov/nchs/data/dvs/national-marriage-divorce-rates-00-18.pdf (accessed February 26, 2022).

[20] Jill Daugherty and Casey Copen, "Trends in Attitudes About Marriage, Childbearing, and Sexual Behavior: United States, 2002, 2006-2010, and 2011-2013," *National Health Statistics Reports* 92 (2016): 1-10.

[21] Holly Hedegaard, Arialdi M. Miniño, Margaret Warner, "Drug Overdose Deaths in the United States, 1999-2018," *NCHS Data Brief*, No. 356 (Hyattsville, MD: National Center for Health Statistics, 2020).

[22] Nathan Lee, "America Has Spent Over A Trillion Dollars Fighting The War On Drugs. 50 years Later, Drug Use In The U.S. Is Climbing Again." *CNBC* (June 17, 2021). www.cnbc.com/2021/06/2021/the-us-has-spent-over-a-trillion-dollars-fighting-war-on-drugs.html.

During the last seventy years, the world tripped into uncharted territory where fiat money, the US Dollar, served as the major world reserve currency. Enabled to pursue significant debt as the major reserve currency, the US Federal Government fiscal policy created growing deficits with associated debt. US Office of Management and Budget data and US Congressional Budget Office data,[23] highlights these structural deficits. Government spending is growing more than revenue and these structural deficits are forecasted to grow exponentially over the next three decades. These deficits increase the public debt yearly, straining global exchange rates, interest rates, capital movements, and exacerbate wealth-income inequalities. Money spent by global entities to finance deficits garnered by failed United States policies cannot be spent by households and other government agencies. The US dollar simply cannot remain the major global reserve currency as the Federal Reserve continues to expand its monetary base and currency to fund growing fiscal structural deficits. Social and economic indicators highlight this unsustainable path. Board of Governors of the Federal Reserve System data reveals the exponential growth in money supply as measured by M2[24]:

- 1960, $304.3 billion,
- 1990, $3,222.2 billion,
- 2010, $8,626,1 billion, and
- 2021, $20,521.7 billion.

Milton Friedman illustrated how growth in money that far exceeds the growth in real GDP leads to inflation and distortions in the real economy such as differential prices, asset bubbles, and misallocation of capital[25]. As a major reserve currency, in an open economy, these distortions are transmitted to other global economies. The exponential growth in money chasing limited real goods and services has consequences, he Consumer Price Index for Urban consumers (CPI-U) reached an annualized rate of 8.6 percent in May 2022[26]. Combating inflation results in increased interest rates, higher expenditures on servicing public debt, and less fiscal bandwidth for policy spending.

These government "*promise more and deliver less"* policies have become mainstays of government involvement in the life of its citizens. Calculating a return on investment is impossible. There

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[23] Congressional Budget Office, "The 2020 Long Term Budget Outlook," (Washington D.C.: Congressional Budget Office, September 2020); and, Office of Management and Budget, "Historical Tables, Budget of the United States Government Fiscal Year 2021," (Washington D.C.: Office of Management and Budget, February 2020).
[24] Board of Governors of the Federal Reserve System (US), M2 [M2SL], retrieved from FRED, Federal Reserve Board of St. Louis, https://fred.stlouisfed.org/series/M2SL, June 1, 2022.
[25] Milton Friedman, "A Theoretical Framework for Monetary Analysis," In *Milton Friedman's Monetary Framework*, ed. Robert J. Gordon (Chicago: The University of Chicago Press, 1982), 1-61.
[26] U.S. Department of Labor, Bureau of Labor Statistics, *Economic News Release, Consumer Price Index*, June 10, 2022, www.bls.gov/news.release/cpi.nr0.htm (accessed June 11, 2022).

literally is no return. The rates would be massively negative, and the opportunity costs of these policies defy calculation. Citizens know this reality all too well.

Public Trust

The Hansen and Okun Keynesian fueled experiment in the United States to use fiscal and monetary policy as an instrument of crafting *human dignity* was a mirage. The broad-based statistics of policy performance, institutional instability, and social cohesion reveal that activist United States Government fiscal and monetary policies have not delivered the promised Camelot. Socialism and capitalism are two sides of the same coin: a desire to be the master of one's own fate or create a fate for others.

According to the Pew Research Center[27], in 1958 about 75 percent of the public believed in government to do the right thing all the time. By 2021, that public trust had fallen to less than 25 percent. Research conducted on public confidence by Tyler Scharia and David Konisky at the Institute of Public Policy at the University of Missouri in 2008[28] yields similar insights about public trust of government policy. Scharia and Konisky found that public trust in the Federal Government dropped steadily since the 1960s. This loss in trust falls into three main categories: economic performance, social conditions such as crime and poverty, and political factors highlighted by scandals and job performance. Scharia and Konisky found that 86 percent of the public believe government should be monitored. Astonishingly, 47 percent believe that the government should be subject to *extreme* monitoring. A related finding noted that respondents have greater trust in state and local governments. The fiscal, monetary, and policy performance outcomes by the United States Government have clearly deteriorated from the 1960s into the 21st century and so has public trust.

A recent Gallup Poll confirms the Pew Research Center trust findings[29]. The historical average from 1997 through 2021 of those that trusted the Federal Government handling of domestic problems stood at 53 percent average. In 2020 that number slipped from the two-decade historical average of 53 percent to 41 percent and 39 percent in 2021. The trend is similar for trust in handling international problems. State and local government trust rankings experienced some small slippage from historical

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[27] Pew Research Center, *Public Trust in Government 1958-2021*, (2021). www.pewresearch.org/politics/2021/05/17/public-trust-in-government-1958-2021/.
[28] Tyler Scharia and David Konisky, *Public Confidence in Government: Trust and Responsiveness*, (Columbia, MO: Institute of Public Policy, University of Missouri, Report 09-2008, June 9, 2008).
[29] Megan Brenan, "Americans' Trust in Government Remains Low" *Gallup*, (September 30, 2021) http://news.gallup.com/poll/355124/americans-trust-government-remains-low.aspx.

averages but remain consistent with historical averages and are clearly higher than the Federal Government.

Internationally, a comprehensive poll of more than 17,000 respondents structured for statistical integrity by US News and World Report in partnership with the BAV Group and Wharton, University of Pennsylvania found the United States with a low trust score, and slipping, as ranked among seventy-eight countries in transparent government policy[30]. Overall, in 2021 the US ranked 45th out of seventy-eight countries in the Open for Business category. In Social Purpose, the United States ranked 19th. By reviewing the detailed data, in 2021 the United States Government trustworthy score was 17.1 out of 100.0 points. Comparatively, Canada's score was 98.3, Switzerland 98.3, Germany 91.2, Japan 76.6, and China 4.5. In 2016, the United States trustworthy score was 33.5, Canada 100.0, Switzerland – not measured, Germany 90.2, Japan 93.5, and China 3.0.

During the decades where trust in government was slipping, the United States Government was transferring tremendous sums from those that paid the taxes to constituents that received taxpayer transfers. To provide a magnitude of the growth of transfer payments, tied to policy shifts by the Federal Government, it is telling to look at total Federal Government transfer payments in 1930, a base year during the Great Depression, of $0.645 billion and 1970, reflecting the growth of the Great Society programs, of $55.636 billion based in *then-year* dollars[31]. Using United States Bureau of Labor Statistics Consumer Price Index (CPI) to adjust *historical then-year* dollars to 2021 equivalents, we find that inflation from 1930 to 2021 was 1,631.19 percent or an increase of a factor of 17.31[32]. Adjusting 1930 transfer payment to 2021-dollar yields an equivalent $11,165 billion. The inflation rate from 1970 to 2021 is recorded at 645.13 percent or a factor of 7.45. Adjusting 1970 transfer payments to 2021-dollar equivalents yields $414 billion dollars. As a basis of comparison, 2021 transfer payments was $3.629 trillion. The growth year-over-year is exponential and correlates with expanded Federal spending, monetary expansion, and public debt. During this same period, social measures of education outcomes, economic inequality, addiction, family cohesion, public and personal debt suggest that the so-called government policy of crafting *human dignity* through policy failed. No doubt, this mediocre performance is reflected in the loss of public trust in government social, fiscal, and monetary policies. How can trust be restored? How can the benefits of a free market be structured to share virtuous rewards to alleviate

[30] United States News and World Report, "Best Countries," (2021), http://usnews.com/news/best-countries.
[31] United States Bureau of Economic Analysis, "Federal Government Current Transfer Payments: Government Social Benefits to Persons," [B087RC1A027NBEA] retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/B087RC1A027NBEA, May 27, 2022.
[32] United States Bureau of Labor Statistics, Consumer Price Index. n.d., https://bls.gov/CPI/ (accessed May 27, 2022).

environment degradation, wealth and income inequality, poverty, and exploitive activities that fuel war and social divisions?

Restoring Trust and Enhancing Investment Returns Through Virtuous Investing

Trust in businesses, the market, and social institutions affect expectations and are frameworks for investing and returns. While economics and finance are disciplines that focus on systemic impacts of actions, all too often, theory or behaviors do not adequately consider that seemingly attractive short-term choices have long-term adverse consequences. A few simple examples highlight this systemic oversight. The Friedman Doctrine of shareholder supremacy has reinforced a system of wealth haves and have-nots. Technology that serves as labor saving productivity tools amplifies this system of winners and losers. Unfortunately, for the winners, the haves, the have-nots, and losers are a large share of the consumers that buy goods and services. For too long central governments have used a system of welfare and transfer payments to mitigate these effects. Money was packed into education and retraining to rebuild human capital and transition people to new in-demand roles. As noted in previous sections, this human Ponzi Scheme has played out. Real wealth needs to be increased and distributed in a more equitable pattern to foster the ability of consumers to consume. For further evidence of current challenges and impending problems facing our economic and social landscape review the series of attachments at the end of this whitepaper (after Works Cited).

The idea of consumption must also change from exorbitant consumption by a few while corporate mercantilism removes precious energy and extractive resources from countries leaving behind a bump in per-capita GDP.[33] The positive note is that the global market works in creating economic lift in developing countries that sorely need economic infusion. The downside is that in developing countries, due to political and economic systems, the distribution of income that leads to a just distribution of wealth and human capital development is problematic. Investment that leads to widespread infrastructure development, human capital and productivity growth, distributive growth in individual wealth, and the ability to partake in global consumption have the promise to change the problematic issues facing the developing world. But the actions must be economically overt, supported and viewed as actions of local communities, and guided by investors with a virtue stake in the outcomes. Investments that are designed for both strategic, and virtuous, market impact and long-term returns above market average are achievable. This is true for developed and developing country investments. The critical component is that businesses working in developing countries must also bring resources to bear that reshape political and

[33] Brock Smith. "The Resource Curse Exorcised: Evidence from a Panel of Countries." *Journal of Development Economics*, Vol 116 (2015), 57-73.

market institutions that lead to a virtuous market. These influences and resources are built on long-term relationships. Budding examples include Eastern Europe countries such as Hungary, Poland, Slovenia, etc. In Asia, Singapore, Malaysia, Thailand, and increasingly Vietnam represent examples of long-term commitments to institutional reform that bring forth virtuous local markets and economic development as well as returns for business investors. Even within the US, states such as West Virginia, Kentucky, the Western edges of Virginia, Mississippi, and Louisiana represent opportunities for both expanded business and human capital development. The story of investment development includes crafting a macroeconomic and microeconomic environment that yields results that governmental and disjointed activities have failed to yield.

There can be no serious discussion of virtuous, or impact, investing without a detailed discussion of crafting the economic environment to embrace a virtuous approach. The economy and market structure create incentives and mechanics for investing. Flattening the business cycle and creating an environment for virtuous investing includes three major levels of rebuilding: macroeconomic activities, microeconomic activities, and education activities.

The macroeconomic activities include:

- Policies that decrease global debt.
- Restructuring governments' role in flattening the business cycle and financing recovery to a regulatory, oversight, and last-resort investor.
- Opening new global markets through discrete corporate action.
- Creating new virtuous employment and investing options in existing markets.
- Shaping organizational responses to Sustainable Development Goals (SDG) through crafted Corporate Social Responsibilities (CSR) that create virtuous market engagement. Emphasis on virtuous corporations exercising strong CSR actions prompted through a community of virtuous consumers.
- Restore public trust through transparent institutions that reduce corruption, wealth inequality, and create a just environment for market activities.

Efforts to create virtuous investing models must include actions and policies that encourage microeconomic activities to support and engage new investing strategies:

- Reshaping consumer activities toward creating virtuous businesses and markets that enhance human dignity, create enhanced returns, encourage stable societies, and garner improved market returns.

- Aligning the structural capital of businesses to embrace a stakeholder organization model – a journey to enhanced returns and sustainability that leads to enhanced stakeholder and shareholder returns. Developing humans, respecting all of God's creation, restoring human dignity, and sharing economic graces creates the development stimulus that garners long-term returns for shareholders, communities, and society. These actions represent the *good* driving out *bad* economic agents in economic and social activities.
- Sourcing investments through expanded groups of stakeholders, e.g., members of communities with links to virtuous customer investors, invested employees, traditional sources of intermediate investments seeking enhanced portfolio returns.
- Expanding financial measures of economic performance and returns.

Education must also be reshaped to focus on developing business leaders capable of creating superior products, services, and crafting human dignity through market activity. Secondary and Higher Education graduates should understand:

- The tools to craft virtuous organizations that can yield both social and market returns.
- Investing models that shape an organization's value-added sources of capital (human, intellectual, and structural) as well stake forms of capital (financial and physical).
- How to invest to align God's and society's economy. In the United States, there has been a gross confusion with government involvement in religion. The prohibition is that government should not engage in religious affairs. There is no prohibition on social institutions embracing a faith-based approach to market activity. There is no prohibition on public funding that follows the student that may choose public or private education options. High return education options are an opportunity for both virtuous investment as well as a source of human capital that drives virtuous markets.

The Financial Results of Employee-Owned Businesses

Now to the proof that virtuous stakeholder businesses yield the results that can drive economic and social change. Stakeholder businesses are not a modern phenomenon. They are rather ancient, and in truth, they predate modern capitalism. Employee-owned businesses are stakeholder enterprises. Cooperatives and mutual companies are stakeholder enterprises. Professional corporations for large law and medical practices are stakeholder enterprises. Family-owned businesses are often stakeholder businesses.

Employee-owned businesses are an essential ingredient in the stakeholder economy that already practices stakeholder capitalism. We can gain a glimpse into the potential economic and social impacts of

an expanded set of stakeholder enterprises by looking at the financial research of employee-owned businesses. Research data indicates the critical reasons why employee-owned business consistently have strong economic performance. It is not surprising. When employees have a say in the governance of the business, the decisions are more robust and reflect not only the strategic view of the enterprise, but also the operational and tactical level of the enterprise. It is at the tactical level of the business where market interactions take place and immediately impact the organization. And it is at the operational level that budgets and cash flow enhancements from successful tactics allows for operational success.

In addition to the governance and structural capital advantages of an employee-owned business, this type of stakeholder enterprise creates motivational incentives for all employees. They have a stake in the enterprise's success and their wealth is directly impacted by overall performance. Productivity, loyalty, integrity, and customer/client service are all benefits of an employee-owned stakeholder enterprise. It is for the employee, in essence, working for themself. Employee actions have a direct impact on employee returns. Employees are motivated to tend to customers, reduce spoilage, and work with intensity in the business success. The Colorado originating REI cooperative model where products are sourced from high quality and environmentally friendly companies where customers receive a 10 percent dividend on all purchases is a similar stakeholder approach. Bloomberg News noted REI's approach is driving change in the retail outdoor industry as well as creating a loyal customer base that appreciates its environmentally and human dignity driven retailing model (Bloomberg 2015). Bloomberg further noted that if REI was a publicly traded business, it would attract massive investment. A blended cooperative and publicly funded business modeled on the REI model can expand REI's pioneering fair-trade product model throughout the developing world and provide exciting returns for shareholders and all stakeholders.

The potential for social impact through wealth distribution and generational wealth transfer generated from an employee-owned enterprise is critical in flattening the extreme boom-bust business cycles that are inherent in the current consumptive, crony, capitalistic system. CEOs have a distributed role in ensuring stakeholder interests are considered in employment decisions, not just a pillage for bonus mentality so common in primacy of shareholder models. It is these various forms of governance, stability, agency, and incentive-decision relationships that stabilize stakeholder enterprises.

Listed below are a series of studies highlighted on The National Center for Employee Ownership (NCEO) website https://www.nceo.org/article/key-studies-employee-ownership-and-corporate-performance The study and results highlight the impact of employee ownership on critical components of a virtuous economy and investment strategies (The National Center for Employee Ownership n.d.).

Study Topic: ***Measuring the Impact of Ownership Structure on Resiliency in Crisis***

Performance Measure: Retirement account balances in ESOP companies versus comparable companies with 401(k) plans based on analysis of over 300,000 companies for 5500 filings.

Study Period: 2019-2020

Performance Impact:

- Mean account balances in all S corporation ESOP companies were $67,000 higher than 401(k) balances in comparable companies, or roughly double the 401(k) amount.
- Ninety-four percent of funds in ESOP accounts were from the employer, compared to just 31% in 401(k) plans.
- Most ESOPs also have a 401(k) plan, and these plans have assets similar to those in non-ESOP companies' 401(k) plans.
- The mean contribution from company to the ESOP was 2.6 times that of the mean contribution to 401(k) plans in comparable non-ESOP companies.

Source: Nancy Wiefek and Nate Nicholson, “Measuring the Impact of Ownership Structure on Resiliency in Crisis,” study performed for Employee-Owned S Corporations of America, 2021

Study Topic: ***ESOPs, Private Companies***

Performance Measure: Annual growth post-ESOP relative to pre-ESOP, indexed for comparable company data.

Study Period: 1988-1997

Performance Impact: Sales growth: +2.4% Employment growth: +2.3% Productivity growth: +2.3%

Source: Joseph Blasi, Douglas Kruse, and Dan Weltmann, "Firm Survival and Performance in Privately Held ESOP Companies," Sharing Ownership, Profits, and Decision-Making in the 21st Century (Advances in the Economic Analysis of Participatory & Labor-Managed Firms, Volume 14), 2013, pp.109-124.

Study Topic: ***ESOPs, Private Companies***

Performance Measure: Annual growth post-ESOP relative to pre-ESOP, indexed for comparable company data.

Study Period: 1982-1986.

Performance Impact: Sales growth: +3.8% Employment growth: +3.4%.

Source: Michael Quarrey and Corey Rosen (both of the National Center for Employee Ownership), Harvard Business Review, Sept/Oct 1987.

Study Topic: ***ESOPs, Public Companies, Tobin's Q (the ratio of the company's stock value to its book equity value).***

Study Period: 1980-2004.

Performance Measure: ESOPs led to an 8.12% increase in Tobin's Q relative to the industry median.

Source E. Han Kim of the University of Michigan and Page Ouimet of the University of North Carolina, "Employee Capitalism or Corporate Socialism? Broad-Based Employee Stock Ownership," paper for American Finance Association 2010 Annual Conference.

Study Topic: ***Public companies with ESOPs compared to comparable non-ESOP companies.***

Study Period: 1980-2004.

Performance Measure: Effect on employee compensation in ESOP companies owning: Less than 5%: + 0.8% More than 5%: + 5.2%.

Source: E. Han Kim of the University of Michigan and Page Ouimet of the University of North Carolina, "Employee Capitalism or Corporate Socialism? Broad-Based Employee Stock Ownership," paper for American Finance Association 2010 Annual Conference.

Study Topic: ***Return on assets, profits, return on equity, and sales growth.***

Study Period: 1998-2004.

Performance Measure: Compared to comparable companies: Return on assets: +5.5% Net profit margin: +10.3% Return on equity: +5.6% Sales growth rate: -0.8%.

Source: Robert Stretcher, Steve Henry, and Joseph Kavanaugh, "The ESOP Performance Puzzle in Public Companies," Journal of Employee Ownership Law and Finance, Fall 2006

Study Topic: ***Tobin's Q, long-term investment, operating risk, productivity, and growth.***

Study Period: 1995-2001.

Performance Measure: Compared to all non-ESOP companies: Non-ESOP Median Tobin's Q: -9.0% Median annual sales growth: -3.0% Total factor productivity: -4.7%.

Source: Faleye,Olubunmi, Vikas Mehrotra, and Randall Morck, "When Labor Has a Voice in Corporate Governance," National Bureau of Economic Research Working Paper, No. 11254, 2005.

Study Topic: ***Employee Ownership and Millennial Financial Health (Note: Millennials saying they are in employee stock ownership plans report substantially higher income, wealth, and access to benefits than those not in plans).***

Study Period: 2017.

Performance Measure: 33% higher median wages 92% higher net household worth 2.6 times more likely to receive tuition benefits Workers of color, low-income workers, and single parents all also have substantially better outcomes.

Source: Nancy Wiefek, National Center for Employee Ownership, Employee Ownership and Economic Well Being, 2017.

Study Topic: Public Companies with ESOPs Lay People Off Less in Recessions. Public companies with ESOPs provided much more job stability in the previous two recessions.

Study Period: 2017.

Performance Measure: Companies with no employee ownership plans cut jobs by 3% for each 1% increase in the unemployment rate; companies with ESOPs by just 1.7%. Companies with ESOPs are 75% as likely to go out of business.

Source: Fidan Kurtulus and Douglas Kruse, How Did Employee Ownership Firms Weather the Last Two Recessions? Employee Ownership, Employment Stability, and Firm Survival:1999-2011, Upjohn Institute, 2017.

Study Topic: ***ESOPs and Employee Compensation: Salaries and retirement benefits compared to comparable employees in comparable companies using all ESOP companies in Washington State and a sample of comparable non-ESOP companies.***

Study Period: 1997.

Performance Measure: Wages 5% to 12% higher Total retirement assets 2.6 times greater diversified retirement assets roughly comparable.

Source: Peter Kardas and Jim Keogh of the Washington Department of Community, Trade, and Economic Development, and Adria Scharf of the University of Washington, "Wealth and Income Consequences of Employee Ownership," National Center for Employee Ownership, 1998.

Study Topic: ***Participation in other retirement plans for ESOP participants; value of company-contributed assets to retirement plans in ESOPs versus non-ESOP companies.***

Study Period: 2004-2007.

Performance Measure: ESOP participants are at least as likely to participate in a second retirement plan as comparable non-ESOP participants are likely to be in any retirement plan. Company contributed assets to retirement plans in ESOP companies are 2.2 times greater than company-contributed assets to retirement plans in non-ESOP companies.

Source: Loren Rodgers, National Center for Employee Ownership, analysis of Form 5500 filings for all ESOPs and data from the Employee Benefit Research Institute (2010).

Study Topic: ***Public companies with ESOPs have 4% greater overall compensation.***

Study Period: 1991-2011.

Performance Measure: ESOPs in public companies had 4% greater overall compensation than public companies without ESOPs.

Source: Fidan Kurtulus and Douglas Kruse, "How Did Employee Ownership Firms Weather the Last Two Recessions? Employee Ownership, Employment Stability, and Firm Survival:1999-2011," Upjohn Institute, 2017.

Study Topic: ***Employee Ownership and Layoff: 2002, 2006, 2010, and 2014 General Social Survey.***

Study Period: 2002-2014.

Performance Measure: Working adults who reported being in employee ownership plans were one-third to one-fourth as likely to report having been laid off in the prior year as those not in these plans.

Source: Data compiled by Joseph Blasi and Douglas Kruse, Rutgers University.

Study Topic: ***Stock Options and Corporate Performance Performance of public companies with broad-based stock option plans (more than 50% of full-time employees receive grants) compared with comparable companies without plans.***

Study Period: 1997-2002

Performance Measure: Companies with broad-based plans saw productivity rise 20% to 33% above comparable firms after plans were implemented, with medium-sized firms at the higher end of the scale.

Source: James Sesil and Maya Kroumova, "Broad-Based Stock Options Before and After the Market Meltdown," Rutgers Working Papers, 2002.

Study Topic: ***Before-and-after performance of public companies with broad-based option plans (same definition as above). Companies in three-year post-plan period compared to before and after data for comparable companies without plans.***

Study Period: 1985-1987 and 1995-1997

Performance Measure: Productivity: +14.8% Return on assets: +2.5%

Source: Joseph Blasi, Douglas Kruse, Maya Kroumova, and James Sesil, Broadly Granted Stock Options Improve Corporate Performance.

Study Topic***: Industry-adjusted return on assets in the 44% of S&P Super 1500 companies that had option plans where more than half the value of the awards went to the bottom 90% of the work force.***

Study Period: 1997-2004

Performance Measure: "A move from the 25th percentile of per-employee delta [that is, increased option grants per employee] to the 75th percentile of per employee delta implies an increase of 0.17% in ROA and a 0.15% increase in cost-adjusted ROA. Since the average per employee delta in the sample is about $760, a $1000 increase represents a little over a doubling of pay to performance sensitivity." Only companies with fewer than the median number of employees saw improvement. In companies with narrowly focused awards options had a negative impact on performance.

Source: Yael Hochberg and Laura Anne Lindsey, "Incentives, Targeting and Firm Performance: An Analysis of Non-Executive Stock Options," Review of Financial Studies vol. 23, no. 11 (November 2010)

To be NCEO's compilation of studies, the research must review employee ownership companies compared to similar non-employee ownership or all non-employee ownership companies. Company performance studies must compare pre-ESOP to post-ESOP performance relative to the competition. The studies selected represent the most recent studies that have the largest and most representative samples. There has been no attempt to include only positive studies. For details on all of the major research on this topic, see NCEO publication Employee Ownership and Corporate Performance for a detailed summary.

The nagging question concerning employee-owned businesses is around sustainability of performance. Michael Conte and Derek Jones examined performance evidence of employee-owned versus stockholder owned businesses during the emerging and evolving era of capitalism (1870-1960 and updated results in 2015). Their findings confirm more recent studies that businesses formed as cooperative, or labor-owned, enterprises enjoyed higher labor productivity and these businesses showed greater innovation in adjusting to changing economic landscapes over extended periods, through epic economic disruptions, and periods of social crisis such as war.

Source: Michael A. Conte and Derek Jones, "On the Entry of Employee-Owned Firms: Theory and Evidence from U.S. Manufacturing Industries, 1870-1960," in *Advances in the Economic Analysis of Participator & Labor-Managed Firms*, ed. Antti Kauhanen, vol. 16 (Bingley, UK: Emerald Group Publishing Limited, 2015), 1-31.

In the final analysis, trust, motivation to perform, and organic communication of market shifts between employees and executives are enhanced through a stakeholder-owner approach. Does attending to customers as stakeholders have economic benefits and business cycle flattening potential? Yes!

Financial Results of Customer-Focused Businesses

Customers are critical stakeholders in a business, unfortunately all too often, many businesses forget this important ingredient. After all, it is customer choice and associated cashflows that underwrite and sustain a business enterprise. It should not come as a huge surprise that successful businesses that take customer satisfaction and values seriously and seek significant customer input into business operations enjoy better than average financial returns. The following studies highlight these financial returns.

Study Topic: *The Value of Customer Experience, Quantified*

Performance Measures: "After controlling for other factors that drive repeat purchases in a transaction-based business, customers who had the best past experiences spend 140 percent more compared to those that had the poorest past experiences." Based on the Medallia Analysis, sales are driven by good customer experiences: The Medallia data revealed that customer experience scores directly related to annual revenue increase per customer. Using a 1-10 Medallia Customer Rating, the revenue increases per customer increased annually:

Score — Revenue Increase Per Customer

1-3	1.0x
4-6	1.3x
7	1.5x
8	1.8x
9	1.9x
10	2.4x

The study also found similar patterns of customer repeat business for subscription-based companies. Customers that provided the lowest Medallia score of one had only a 43 percent chance of being a member a year later. A customer that provided a top two score of nine or ten had a 74 percent change of remaining a member for at least another year. Customer longevity in a subscription-based business, revenue, is directly related to customer satisfaction (Kriss 2014).

Source: Kriss, Peter. "The Value of Customer Experience, Quantified" Harvard Business Review Online, August 1, 2014. https://hbr.org/2014/08/the-value-of-customer-experience-quantified Extracted July 14, 2023.

Good Businesses Practices the Precursor to Good Investing

Good financial practices that lead to sustainable returns for investors are inexorably linked – a causative relationship, not a correlative relationship. Another way to view the relationship is *doing good while generating good returns*. The business cycle is propagated by uncertainty and risk as well as distorted relationships among economic determinates. For instance, the Austrian Model of business cycles focus on cheap money created by expansive monetary policy. The cheap money creates distorted high asset values, decreased real wages, and ultimately a recession ensues to correct the distortions. Real Business Cycle and other related models of business cycles focus on business shocks such as technology, events, etc. The common theme among these various models includes economic distortions that subsequently induce shock, uncertainty, risk, and unanticipated events as catalysts for economic stress and investment mayhem. Historically, only the Austrian model is consistently predictive of how these economic determinates lead to a downturn in the business cycle with its concomitant impacts on investments and investing returns. Yet, the Austrian model does not provide a tool to reverse the impacts of the downward business cycle. Policymakers and business leaders turn to government for traditional Keynesian remedies. As noted in the first section of this whitepaper, these Keynesian remedies have their own side effects and set up the next bout of economic distress.

Nancy Bocken and Samuel Short document and provide a taxonomy for Sustainable Business Models (SBM) measured against the United Nations Sustainable Development Goals (SDGs).[34] Bocken and Short review and identify Unsustainable Business Models (UBM) and provide a hierarchy of sustainable business practices that lead to stable economic growth as highlighted below:

- Efficiency/productivity (using fewer resources).
- Net-zero (substitute with renewables).
- Circular Economy (closing resource loops, repair, reuse, etc.).
- Sufficiency economy (making do with less).
- Net positive impact on nature and society (stewardship and regenerative models).
- Flourishing (societal and environmental well-being beyond economic optimization).

Bocken and Short ultimately conclude that environmental exploitation; consumer driven short-term business products to meet short-term business goals; poor products and services quality; and exploitive business activities lead to unsustainable business practices. Practices that lead to business cycle swings are driven by unsustainable practices. The archetypes of unsustainable business models (UBM) include:

- Environmental resource exploitation and waste.
- Human resource exploitation and waste.
- Economic exploitation.
- Unhealthy or unsustainable offering.
- Quantity over quality and value.
- Addictive consumption pattern.
- Complex opaque global value chain.
- Short-term shareholder – not stakeholder value.
- Financing and supporting unsustainable practices.

Unsustainable business practices are the central source of economic and social instability. This leads the discussion of sustainability, reduced uncertainty and risk, and enhanced investment cycles back to the models and consumer behaviors highlighted in the book *The Virtuous Economy: Reforms in the Franciscan Tradition* (Hewlett, Franciscan Institution Publications).

[34] Cf Nancy M.P. Bocken and Samuel W. Short. "Unsustainable Business Models – Recognising and Resolving Institutionalised Social and Environmental Harm." *Journal of Cleaner Production,* 312 (2021). Open Access (http://creativecommons.org/licenses/by/4.0/) Elsevier Ltd.

The documentation of enhanced returns generated by stakeholder models (SBM) provide the evidence that there are immediate investing alternatives that impact human dignity, the dignity of God's creation, and reduces economic volatility. Another way of viewing this SBM/UBM model is through an institutional lens. In 2014, the European Union published its first anti-corruption report documenting how bribery, tax evasion, cronyism, embezzlement, political fraud, and other forms of vice cost the European economy about 120 billion euros a year. Documenting the importance of this study in The Atlantic, Ed Yong highlighted a study by Simon Gachter and Jonathan Schultz, University of Nottingham. Gachter and Schultz asked volunteers from twenty-three countries if they were more willing to bend their own behaviors, toward vice, if they live in more corrupt societies. The conclusion, "It's okay! Everybody does it around here."[35] Gachter and Schultz conducted several experiments to verify the results of their survey. They found consistent bending of rules for gain if they thought it was tolerated or common practice calling their findings "justified dishonesty." This is the societal equivalent of Grisham's Law: vice drives out virtuous behaviors in a society.

The implications are clear, virtuous economies/sustainable business models and sustained returns from investing are tied to virtuous individuals that make daily economic choices that direct the economy toward virtue. The market itself becomes the reform mechanism where good money and values drive out bad money and values. There are no short cuts. Investors, and society's, best interests are found in engaging in a virtuous economic stakeholder and conscious capitalism business models that move business behavior toward SBM attributes.

But economic models are not the full extent of the rethinking of investing. Business leaders, consumers, and investors must have new models of learning that speak truth and fullness of the systematic behaviors that contribute to virtuous investing with improved social systems. David Couturier addresses this cycle of corruption infecting all social institutions. Couturier calls for virtuous behaviors stating, "new institutional practice, the intentionality of an ethic of caring that should infuse all institutions that want to be virtuous in a time of increasing global turbulence and moral crisis" (Couturier, From Vicious to Virtuous Institutions: Moral Tranformation and Organizational Practice 2024).[36] This reflects the *good* driving out the *bad* in institutional practices. These practices are byproducts of values, behaviors, and actions that have their roots in education and faith.

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[35] Cf Ed Yong. "Corruption Corrupts." *The Atlantic,* March 9, 2016. https://www.theatlanti .com/science/archive/2016/03/corruption-honesty/472779/
[36] Cf. David B. Couturier. "From Vicious to Virtuous Institutions: Moral Transformation and Organizational Practice." Edited by Krijn Pansters and Anton ten Klooster (eds.), *Moral Conversion in Scripture, Self, and Society*, De Gruyter, 2024.

Many times, investors mistakenly consider these items of institutional corruption as soft items not included in technical or fundamental analysis of businesses. However, it is exactly the structural capital of businesses that determines long-term value. The institutional framework of a business that creates the engine for sustainable long-term returns. The development, recruitment, and retention of value creating humans and intellectual capital is crafted by a virtuous, caring, and sharing approach to business found deep in the DNA of the structural capital of a business.

While it seems all too obvious to point out, the structure of an economy is central to economic performance. Collin Constantine in a 2017 paper noted this important common sense finding that the way income and wealth is distributed in an economy, or property protected, or the inclusion of people in companies make a real economic performance difference.[37] Values and virtue within the institutional and market structures of a society and economy make significant differences in the performance of markets and businesses. Constantine highlights honest and transparent democratic political structures, productive capabilities, education, high value-added products, and services as central features to a well performing economy. Constantine's findings reinforce the building of a Virtuous Economy with high value-added activities where stakeholders share in the wealth and income generation.

Resiliency, Durability, and Performance As Appropriate Investment Co-Metrics

All too often in financial investing analysis, both fundamental and technical analysis, the emphasis is on hot sectors, hidden value stocks, historically high performing stocks, and yield stocks that pay consistent dividends. All of these methods are valuable screen tools for investors. However, to build a sustainable performance-based investment portfolio underlying value creation and market sustainability lie critical factors in picking investments that create long-term value. Tim Keller, March Goedhart, and David Wessels in their research highlighted this value contribution approach with a series of short-, medium-, and long-term health metrics of an organization that contributes to long-terms value for shareholders. (Tim Keller 2005). The metrics clearly point to the value-adding health of an organization: the capital of an organization that connects the organization to the market, customers, innovates, reduces costs, and uses all forms of capital effectively and efficiently.

Keller et al, found that the critical metrics of the organization consistent in creating value as measured by Total Returns to Shareholders (TRS), Market Value Added (MVA) and Return on Invested Capital (ROIC) were linked conversion and maintenance forms of capital in the organization. The real story is that real sustained value for shareholders is found in high performing value-added capital: human,

[37] Cf Collin Constantine. "Economic Structures, Institutions and Economic Performance." *Journal of Economic Structures*, 2017, 6(2).

intellectual, and structural capital that manage and enhance the physical and financial capital invested in the business. Keller et al, metrics include the forms of capital added to correspond to value-added capital sources:

- Short-term metrics.
  - Sales productivity metrics (human, intellectual, and structural capital).
  - Operating cost metrics (human and intellectual capital).
  - Capital productivity metrics (human, intellectual, and structural capital).
- Medium-term metrics.
  - Commercial health metrics (talent and technology – human, intellectual, and physical capital).
  - Cost structure health metrics (human, intellectual, and structural capital).
  - Asset health (human and intellectual capital).
- Long-term metrics.
  - Organizational health (structural capital).
  - Stock market total returns to shareholders (TRS – all forms of capital)

The research demonstrates that high performing companies, over the long term, are the companies that invest in both their stakeholders and traditional capital structures. It only makes sense that companies that invest in stakeholders also are investing in an organization linked to the market. Stakeholders have a vested interest in making the best choices for the organization. And an expanded stakeholders foster cash flow and returns that will provide enhanced returns to shareholders.

These enhanced returns not only reward shareholders and stakeholders, but they also create an environment where boom and bust investment cycles (short-term investing) that distort underlying asset values are mitigated. Austrian Economists such a Eugen von Bohm-Bawerk noted that distortions in money supply, capital allocation, and productivity causes bubbles in the economy that ultimately lead to the boom-bust business cycles (Potuzak 2022). The Austrian models are among the most accurate fundamental predictors of business cycle changes. No one can predict timing, but Austrian models are excellent to highlight the conditions that lead to cyclic boom and bust economic cycles.

Conclusion

There is no quick magic elixir for investors to make money. Seeking the magic elixir leads to short-term investments that disappoint over the long-term. It should be no surprise that market studies consistently show that long-term capital investments in stakeholders with a firm commitment to Corporate Social Responsibility (CSR) is the formula that creates solid markets, solid returns, and fosters

a more just society. It is exactly this market recipe that flattens devastating business cycles, leads to a virtuous economy, and restores a people-driven market economy that limits the impulse for over-reaching government interventions into the economy.

The CSR market-value investment dynamic is captured in a 2005 paper by Alison Mackey, Tyson B. Mackey, and Jay B. Barney (Mackey, Mackey and Barney 2005). Mackey et al, noted that the number of companies fostering strong CSR business models is linked to the supply of funds and demand by investors to invest in these types of high CSR model businesses. Ultimately, it becomes a product of education to help investors understand the value of investing in high CSR businesses that produce high shareholder, and stakeholder, returns. Mackey et al, note that it is a combination of consumer and investor demand that will move managers to adopt stakeholder and CSR rich business practices. To move the market to a more stable and just economic model requires informed, invested, and committed consumers and investors.

The trust, transparency, and income-wealth distribution sought and squandered by government policies can be restored. Government can take a virtuous regulatory role, while investors and consumers move global markets and ultimately global business models through the demand for virtuous organizations. Ultimately, the energy, impetus, and education for a move from a self-interest driven model of government policy and market behavior to a virtuous economy and investment model will require concerted energies by the Catholic Church, Franciscan Community, and a coalition of the willing to begin an overt, sustained, and orchestrated effort of community building around the temporal and eternal benefits of demanding more from our economic choices and the interrelated consequences of those choices.

Next Steps

1. Franciscan Schools of Theology and Business begin to implement curricular changes that foster leaders in business and faith capable of crafting virtuous enterprises and Jesus' disciples as virtuous consumers.
2. Continued Engagement of Vatican resources in educating the faithful in economic choice.
3. K-12 curricular changes in Catholic schools that foster the understanding of virtuous economic choices and consequences.
4. Accelerated applied research and publication of materials within the Franciscan community focusing on choice, activities, and consequences leading to social and economic activity that fosters the rich fulfillment of God's Economy.

5. Social Media engagement to develop a coalition of the willing outside of traditional Catholic and Franciscan communities.

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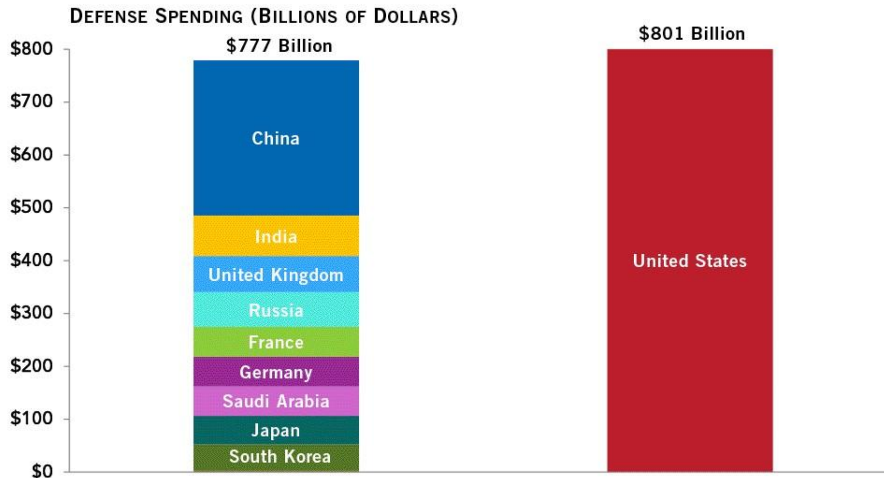
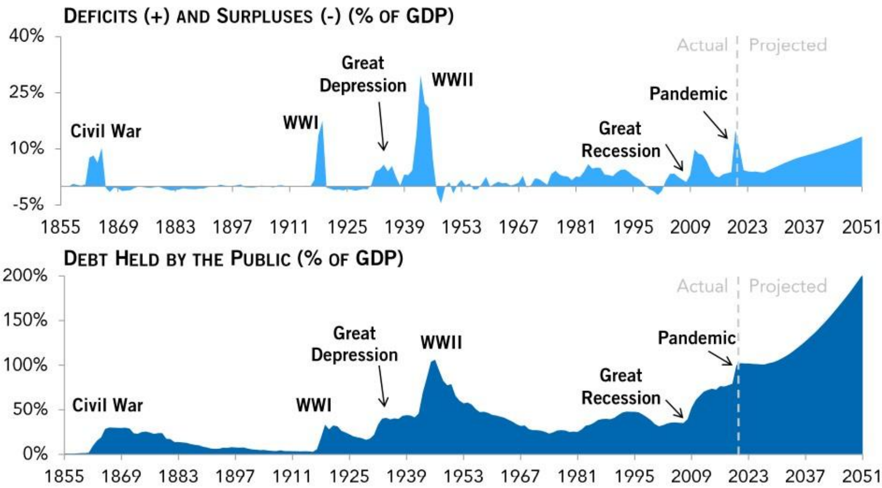


Historically, debt and deficits rose with wars and economic downturns. Today, they rise from factors such as growing healthcare costs and an aging population



SOURCES: Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021; Office of Management and Budget, *Historical Tables, Budget of the United States Government: Fiscal Year 2022*, May 2021; and Cambridge University Press, *Historical Statistics of the United States, Millennial Edition Online*, 2006.

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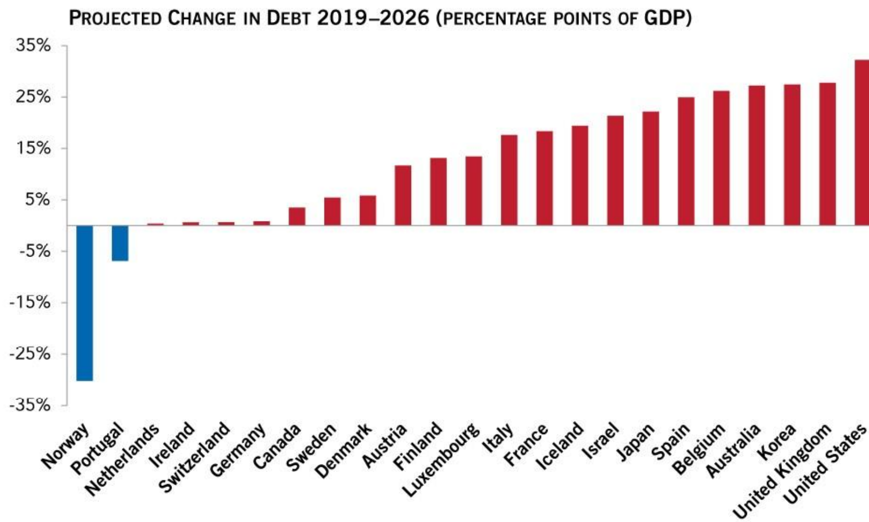
The United States is on pace to lead the world in debt increase as a percentage of GDP



SOURCE: International Monetary Fund, *World Economic Outlook*, April 2021.

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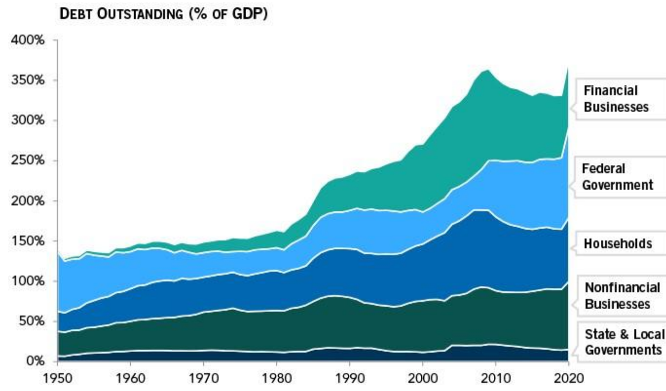

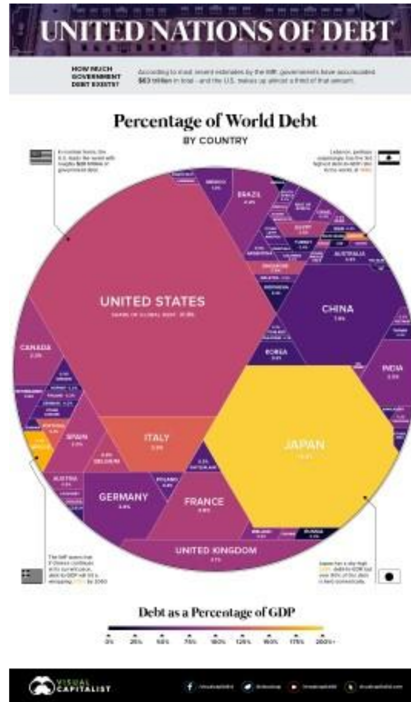

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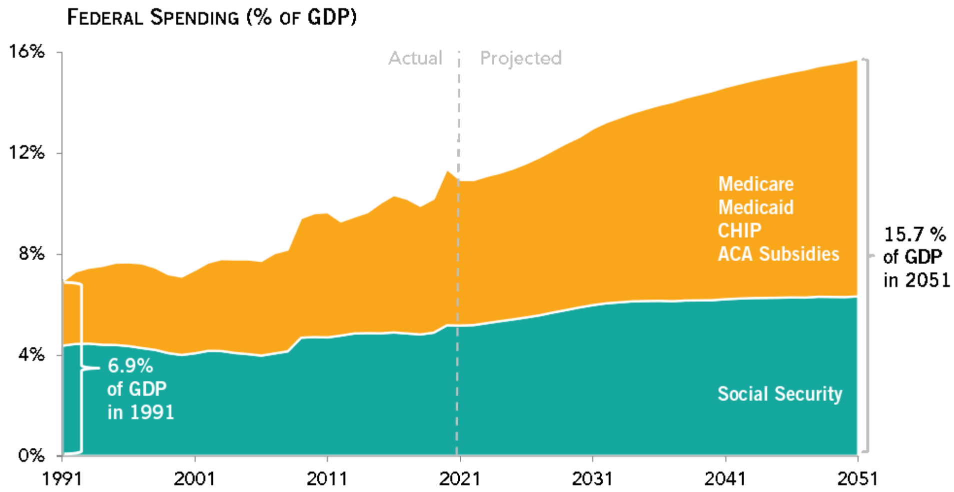
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Spending on federal entitlement programs will more than double between 1991 and 2051
FEDERAL SPENDING (% OF GDP)
16%
12%
8%
4%
0%
Actual
Projected
Medicare
Medicaid
CHIP
ACA Subsidies
15.7 %
of GDP
in 2051
6.9%
of GDP
in 1991
Social Security
1991
2001
2011
2021
2031
2041
2051
SOURCES: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021; and The Budget and Economic Outlook: 2021 to 2031, February 2021.
NOTES: Medicare spending is net of premiums and payments from the states. CHIP is the Children's Health Insurance Program and helps to pay for health insurance for uninsured children. ACA subsidies are the federal spending to subsidize health insurance purchased through the marketplaces established by the Affordable Care Act and related spending.
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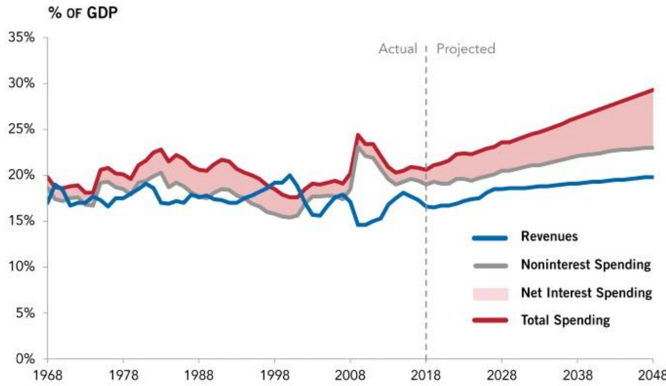
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Interest costs are projected to grow substantially
% OF GDP
35%
30%
25%
20%
15%
10%
5%
0%
Actual
Projected
Revenues
Noninterest Spending
Net Interest Spending
Total Spending
1968
1978
1988
1998
2008
2018
2028
2038
2048
SOURCE: Congressional Budget Office, The 2018 Long-Term Budget Outlook, June 2018; and Office of Management and Budget, Budget of the United States Government, Fiscal Year 2019, February 2018. Compiled by PGPF.
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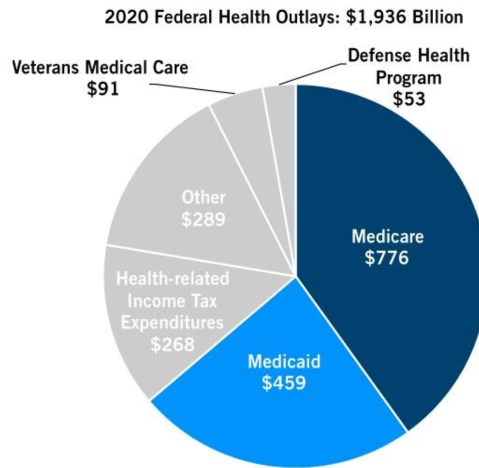
Medicare and Medicaid account for the majority of federal healthcare spending



SOURCES: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2022*, May 2021; and The Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2020–2024*, November 2020.
NOTES: Health-related Income Tax Expenditures includes all tax expenditures classified under the Health function by the JCT. Medicare spending is net of offsetting receipts. Healthcare spending in 2020 was about $300 billion more than such spending in 2019, that increase was largely due to enhancements in healthcare programs in response to the COVID-19 pandemic.

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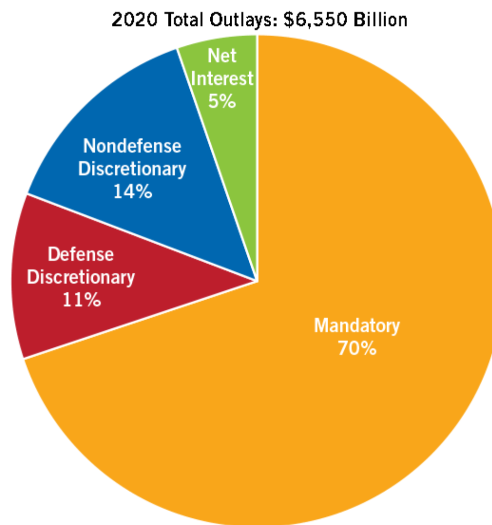
Mandatory spending accounts for about two-thirds of the budget



SOURCE: Office of Management and Budget, *Historical Tables, Budget of the United States Government: Fiscal Year 2022*, May 2021.
NOTE: Mandatory spending includes major entitlement programs such as Social Security, Medicare (net), and Medicaid. In 2019, mandatory spending accounted for 62 percent of the budget, but the category was enlarged in 2020 by programs to address the pandemic.

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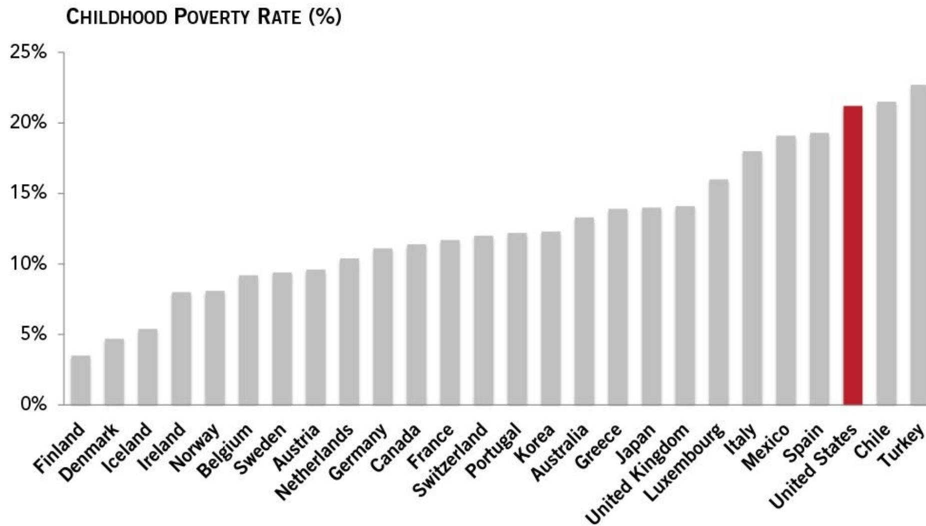
There is a high rate of child poverty in the United States compared to other developed countries



SOURCE: Organization For Economic Co-Operation and Development, *Income Distribution Database*, July 2021.
NOTE: Data are for latest available year, and are based on income after taxes and transfers.

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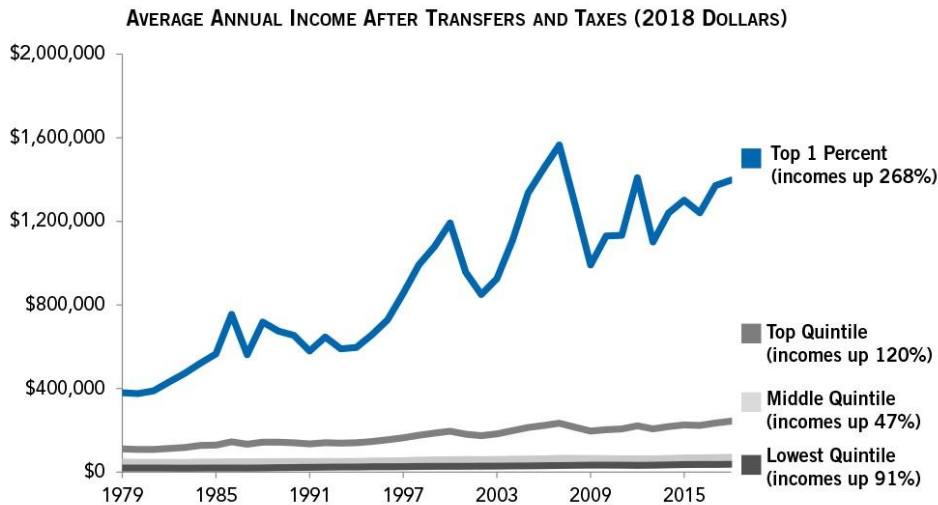
Income growth since 1979 has been larger for high-income earners, even when including transfers and taxes



SOURCE: Congressional Budget Office, *The Distribution of Household Income, 2018*, August 2021.
NOTES: Increases calculated for 1979–2018. Income after transfers and taxes is comprised of market income plus income from social insurance programs (i.e. Social Security), plus means-tested transfers received (i.e. Medicaid), minus federal taxes. The top quintile includes households that are also in the top 1 percent.

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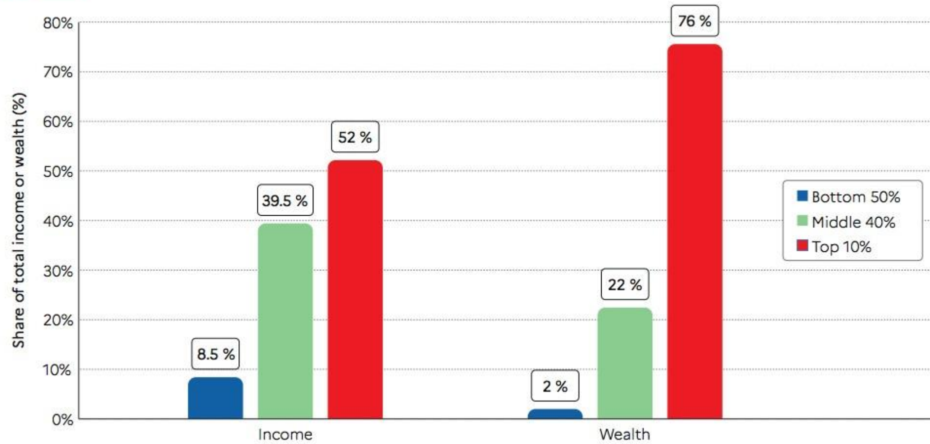
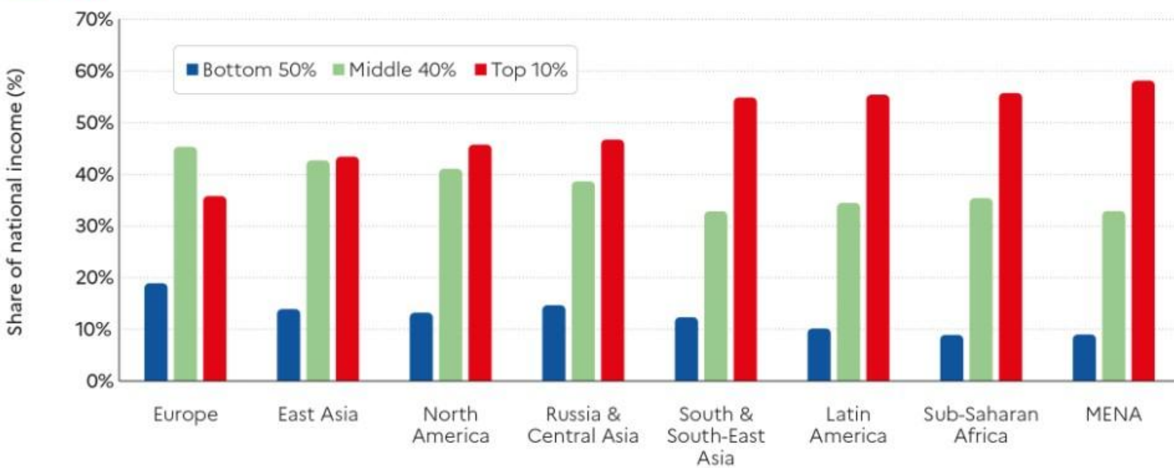
Figure 1 *Global income and wealth inequality, 2021*



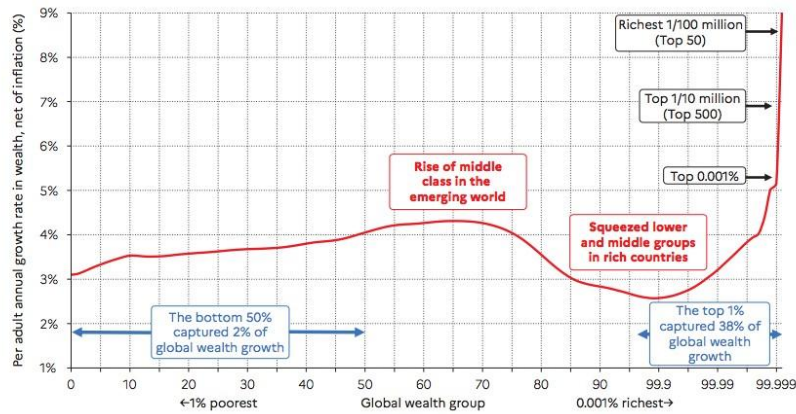
Interpretation: *The global 50% captures 8% of total income measured at Purchasing Power Parity (PPP). The global bottom 50% owns 2% of wealth (at Purchasing Power Parity). The global top 10% owns 76% of total Household wealth and captures 52% of total income in 2021. Note that top wealth holders are not necessarily top income holders. Incomes are measured after the operation of pension and unemployment systems and before taxes and transfers.* ***Sources and series:*** *wir2022.wid.world/methodology.*

Figure 2 *The poorest half lags behind: Bottom 50%, middle 40% and top 10% income shares across the world in 2021*



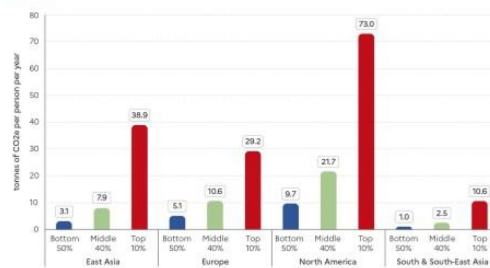
Interpretation: *In Latin America, the top 10% captures 55% of national income, compared to 36% in Europe. Income is measured after pension and unemployment contributions and benefits paid and received by individuals but before income taxes and other transfers.* **Sources and series:** *www.wir2022.wid.world/methodology.*

Figure 9 *Average annual wealth growth rate, 1995-2021*

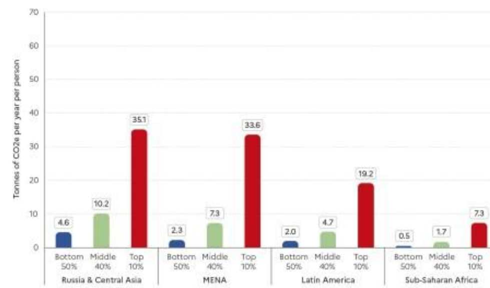


Interpretation: *Growth rates among the poorest half of the population were between 3% and 4% per year, between 1995 and 2021. Since this group started from very low wealth levels, its absolute levels of growth remained very low. The poorest half of the world population only captured 2.3% of overall wealth growth since 1995. The top 1% benefited from high growth rates (3% to 9% per year). This group captured 38% of total wealth growth between 1995 and 2021. Net household wealth is equal to the sum of financial assets (e.g. equity or bonds) and non-financial assets (e.g. housing or land) owned by individuals, net of their debts.* ***Sources and series:*** *wir2022.wid.world/methodology.*

Figure 15 *Per capita emissions across the world, 2019*



Interpretation: *Personal carbon footprints include emissions from domestic consumption, public and private investments as well as imports and exports of carbon embedded in goods and services traded with the rest of the world. Modeled estimates based on the systematic combination of tax data, household surveys and input-output tables. Emissions split equally within households.* ***Sources and series:*** *wir2022.wid.world/methodology and Chancel (2021).*



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