Stewardship-Based **ECONOMICS**

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Contents

Foreword	ix
Chapter 1 / Introduction	1
1.1 Life and Living	1
1.2 Bubble Economy and Job Loss	11
1.3 The Aging Population	12
1.4 Petroleum Sales Tax	12
1.5 Black Gold and War	13
1.6 The Trinity of Economic Power	14
1.7 Stewardship-Based Economics is About the Purpose of Life and Living	15
Chapter 2 / People	21
2.1 Malthus' Population Study	21
2.2 People, Land and Home	23
2.3 Overpopulation and Global Poverty are Not About Numbers	26
2.4 Fact and Wisdom — Some Lessons from Experience	29
2.5 People: The Most Valuable Capital	32
Chapter 3 / Resources	39
3.1 Introduction	39
3.2 Resources: Our Life Support System	43

3.3	Renewable Resources	49
3.4	Non-renewable Resources	52
3.5	When Demand Exceeds Supply	54
3.6	Revisiting the Relationship Between People and Resources	55
3.7	The Market Economy — A System Governed by the Invisible Hand	56
Chapter 4 / Fear, Ownership and Stewardship Responsibility		61
4.1	Fear is a Great Motivator	61
4.2	Fear of the Unknown	62
4.3	The Rich Have More Fears	64
4.4	The Good and the Evil	65
4.5	Ownership	66
4.6	The Odd Couple: MBA and ROI	68
4.7	The Unfortunate Reality	70
4.8	Definition of Stewardship	73
4.9	Stewardship Responsibility is Not the Same as Social Responsibility	75
Chapter 5 / Production		80
5.1	Entrepreneurship	80
5.2	Survival	82
5.3	Ownership and the Accumulation of Wealth	84
5.4	Employment of Resources	86
5.5	Cost and Costing	87
5.6	Issues of Concern	88
5.7	Capital	91
5.8	Discount Theory and the Future	95
5.9	Capitalism — Can We Make It Work?	96
Chapter 6 / From Slave Trade to Globalization		101
6.1	Trade, War and Peace	101
6.2	From Slave Trade to Colonization and Globalization	102
6.3	Globalization	106
6.4	Governance of the Market Economy	114
6.5	The Multi-functioning Market System	118

Chapter 7 / Distribution and Sharing	121
7.1 Introduction	121
7.2 Lakeshore, Oceanfront and Rainforest	124
7.3 Differences Between Distribution and Sharing	126
7.4 Distribution — Its Right and Entitlement in Practice	127
7.5 A Summary of Net Income or Profit Distribution	138
7.6 Conclusions	141
Chapter 8 / Capital, Capital Accumulation and Diseconomy	143
8.1 Introduction	143
8.2 The Sacrifice: The Unaccounted Cost of Capital	144
8.3 The Accumulation of Money Capital	146
8.4 Capital Market	153
8.5 Diseconomy	159
Chapter 9 / Two Plus One	165
9.1 Introduction	165
9.2 The Government	166
9.3 Privatization	176
9.4 Philanthropists	177
9.5 Social Entity Inc.	181
9.6 Conclusion	188
Chapter 10 / The Candle of Hope	191
10.1 The Emergence of Private Property Ownership and Social Justice	192
10.2 The Hope	196
10.3 Stewardship-Based Education	197
10.4 Wrapping Up the Beginning	202
Index	205

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Foreword

It is my honor to write this preface to Prof. Kao's book *Stewardship-based Economics*. As the author's occasional co-author and as his son, I have seen the development of Prof. Kao's philosophy of Entrepreneurism from its inception. This book, the third in a series, is the culmination (though undoubtedly not the end) of Prof. Kao's work on this subject in which he has been such a pioneer. This work reflects current concerns over the environment and global climate change, and at the same time, also reflects our growing concern over the distribution of wealth and the plight of the poor, and is very much his own blend of critique, evaluation and hope for the future.

It is an important book, a book that tackles the critical question of how we perceive ourselves as individuals and how we interact as a collective. Over 230 years ago, Adam Smith tackled the question of how can we create a moral society and act for the common good, when the actions of man are fundamentally self-interested. His concept of the free market economy was a great leap forward over the existing regime. From chapter 10 of this book:

“... when Adam Smith's *Wealth of Nation* was published, ... governments granted monopolies and gave subsidies to protect their own merchants, farmers and manufacturers against 'unfair' competition ... artisans of one town were prevented from traveling to another to find work. Local and national laws forbade the use of new, labor-saving machinery. Adam Smith ... showed convincingly how the

principles of free trade, using competition as a stimulant for innovation and creation for self-interest and the common good, were scarcely understood. He saw how choice would spur on economic development, reduce poverty, and precipitate the social and moral improvements of humankind that are principles of his treatise on wealth. Well, that was more than two hundred years ago ...”

Smith advocated a then novel solution, one that in many ways presaged our understanding of the evolution of life and of human behavior — he realized that the individual fundamentally acts best, based on what he can immediately judge and act upon; in this case, his own self-interest. A great idea for its time and indeed for today, yet, despite all the advances and changes in this world in the intervening centuries, there have been surprisingly few advances beyond Adam Smith, whose propositions remain the moral and functional basis for free market capitalism today. In a famous passage from his *Wealth of Nations*, Adam Smith wrote:

“In civilized society [man] stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons. ... man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.”

However, times have now changed, and with the benefit of hindsight, Prof. Kao shows us very clearly the implications of Adam Smith’s moral philosophy, challenging us to elevate ourselves above the principles of

self-interest. In a prior work, Prof. Kao replied with a fable,¹ in which the butcher offers such a proposition to the pig he is about to serve up for dinner, paraphrased here.

Butcher: Give me what I want, and I will give you what you want ... [in fact] Haven't we given you what you want already, we feed you and give you shelter ... [and] even clean you?

Pig: Yes ... because you want me to be plump and healthy, so you will kill me to feed you? You know, you will never give me what I want, because what I want from you is to let me live, which is what precisely you can't give me.

Butcher: ... other than serving human needs what else can you do to make your life more meaningful?

Pig: ... how could I [know]? I am not even human.

This simple story illustrates three important points. First, free market economics relies on a “contest” between participants, in which each individual, acting in his own best interests seeks to obtain the best deal possible for himself (and presumably his dependents). This contest however, requires that the participants are (approximately) equals. Not only is the “free market” contest often an unequal one between the haves and the have-nots, but it becomes increasingly unequal over time, as the rich get richer and the poor get poorer, until the rich have all the advantages and the poor, none, with the very poorest having nothing to contribute at all. For the free market to work, each individual must have something that the other values and wants. Second, the contest is only valid if no one party has power over any other, i.e. no contestant can take what he wants by force from another, without destroying the system that supports them both. Third the contest only works where the participants all have a full understanding of the “contest” being played, or at least have equivalent understanding with the other. In the above situation, the contest fails for all three of these reasons — first what the butcher wants is precisely what the pig will not give freely; his life. Second, the butcher can (and does)

¹ R.W.Y. Kao et al., *Entrepreneurism: A Philosophy and a Sensible Alternative for the Market Economy* (Imperial College Press, 2003).

forcibly take what he wants from the pig. Third, the pig does not even understand the nature of the contest being played out — what is meaningful to the human (i.e. the betterment of human life) is not meaningful in the context of the pig.

Without overstretching the analogy, these difficulties can be reflected in the implementation of capitalism we see today, whether it is on the level of international relations (the intervention of the Western nations in Iraq), the destruction of the environment in the name of progress, or compromises in human health and safety in the name of profit, and Prof. Kao draws upon these examples throughout. As he would put it, the contest is not just between shareholders, but must consider the role of all stakeholders, these stakeholders including not only all the people involved in the production process but also, and perhaps most importantly, the earth itself.

While criticising free market capitalism, and the effects of the capitalist west on countries such as Russia and Iraq, Prof. Kao does not advocate a return to communism or the reinstatement of totalitarian regimes. It is not an either/or situation. What he says is something quite simple — it is not enough to provide better government, for example, to the Iraqis in comparison to Saddam Hussein's regime. We can (and must) do better than that. It is not enough to simply have fewer people die under the watch of the Western coalition, than died before the invasion of Iraq. We can (and must) be better than that. In the end the contest is not of one system against another, of capitalism being better than communism or despotism, it is about being the best, for all of humanity both for our generations and those of the future. In this book, Prof. Kao contrasts the failures of capitalism (to recognize all stakeholders in our future) with the downfall of communism, which failed to recognize the need for creative ownership in all people. He offers a third way, one that recognizes the power of the free market and self-interest but also recognizes that the criticisms of Marxism against the capitalist system were valid and must be addressed. How does Prof. Kao challenge us to engage the motivations of self-interest with the need for cooperation and the common good? In his words, "it's all about ownership." Central to his argument, he appeals to the things that distinguish us from all other species on earth (at least as far as we know) — our ability to see into the future and our desire to create and innovate. As far as we know, animals only see dimly into the

future, while we think and worry about the far distant future, indeed past our own demise, and in our thinking, express our desire to build for ourselves (our “legacy”) and for our children. Our ability to affect nature, our ability both to build and to destroy, is unprecedented and unequalled by any other single species and it can only be counterbalanced by our ability to foresee the consequences of our actions, and, by accounting for the roles of all stakeholders in the transactions of a free society.

This is a book that is about much more than just business. It is a personal account, drawing illustrations from the author’s own experience, and a passionate plea for a new way to live. In today’s “expert” driven world, it is sometimes unfashionable to consider applying the creative and innovative energies of all people to all tasks. This book cries out for the need to redress this imbalance – to place the emphasis not on reliance on professional training or professional procedures but on the individual’s creative needs and abilities. It is the most human of books, and a tremendous call of hope for the future.

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