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Future of Capitalism*

Műhelytanulmány

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The moral foundation of capitalism should be reconsidered. Modern capitalism is disembedded from the social and cultural norms of society and produced a deep financial, ecological and social crisis. Competitiveness is the prevailing ideology of today's business and economic policy. Companies, regions, and national economies seek to improve their productivity and gain competitive advantage. But these efforts often produce negative effects on various stakeholders at home and abroad. Competitiveness involves self-interest and aggressivity and produces monetary results at the expense of nature, society and future generations

The collaborative enterprise framework promotes a view in which economic agents care about others and themselves and aim to create values for all the participants in their business ecosystems. Their criterion of success is mutually satisfying relationships with the stakeholders. New results of positive psychology and the Homo reciprocans model of behavioral sciences support this approach.

The economic teachings of world religions challenge the way capitalism is functioning, and their corresponding perspectives are worthy of consideration. They represent life-serving modes of economizing which can assure the livelihood of human communities and the sustainability of natural ecosystems.

Ethics and the future of capitalism are strongly connected. If we want to sustain capitalism for a long time we have to create a less violent, more caring form of it.

1 The Legitimacy of Capitalism

The financial, ecological, social crisis of the first decade of 21st century clearly show that the *legitimacy of capitalism* is in many respect questionable. The *moral foundations of capitalism* should be reconsidered.

The economic crisis of 2008-2010 produced *financial losses* of billions of USD in the form of poisoned debts, decline of stock prices and value depreciation of properties. Formerly successful economies such as Ireland, Spain, Singapore and Taiwan experienced 5-10 % decline in their GDP. The fundamental cause of the crisis is the *avarice of consumers* fueled

by *greedy financial institutions*. The prospect of future economic growth supposed to be the guarantor of the indebtedness of households, companies and economies. Today we experience the considerable downscaling of our economic activities.

Current data shows that *climate change* is more drastic in speed and magnitude than predicted. The increase of global temperature and the sea level rise can be much higher because of the reactions of the degraded biosphere. The accumulated CO₂ in the atmosphere will cause devastating effects even if we would stop CO₂ emission completely today. According to James Lovelock climate change will effect tragically the humankind already by 2020 but for 2100 the majority of humankind – even 5-6 billion people – can perish because of the uncontrollable climate and the melting ice. (Lovelock, J. 2007)

According to the Millennium Ecosystem Assessment (2005), 15 out of 24 of the *ecosystem services* have been *degraded* or used unsustainably, including fresh water, capture fisheries, air and water purification, and the regulation of regional and local climate, natural hazards, and pests. These services are fundamental for the well-being of current and future human generations, and other living species. In many cases, ecosystem services have been depleted because of interventions aimed at increasing the supply of other services, such as food.

The latest data available, provided by the Living Planet Report 2008, indicate that humanity's *ecological footprint*, our impact on the Earth, has more than doubled since 1961. In more detail, since the late 1980s, mankind has been operating in overshoot. As of 2005, the Ecological Footprint has exceeded the world's biocapacity by about 30 percent. This means that the planet's resources are being used faster than they can be renewed. In parallel, the Living Planet Index shows a related and continuing loss of biodiversity—between 1970 and 2005, populations of 1,686 vertebrate species declined by nearly 30 percent (WWF International, 2008).

In 2009, worldwide, 1.02 billion people were classified as *undernourished*. This represents the greatest number of hungry people since 1970 and a worsening of the unbearable trends that had emerged even before the economic crisis. In 2006-2008 a food crisis, which especially affected populations in developing countries, was created by a strong increase in international food commodity prices resulting also from international financial speculation.

Because of that, at the end of 2008, domestic staple food prices remained, on average, 17 percent higher in real terms than two years earlier (FAO, 2009).

Most (if not all) of the *Millennium Development Goals* (MDGs) will not be achieved by 2015. Adopted by the world leaders on 8 September 2000, thanks to the approval of the Millennium Declaration by the General Assembly of the United Nations, the MDGs concern social justice; improvements in the living conditions of children and women, particularly in developing countries; the protection of the environment; and the strengthening of international collaboration (United Nations, 2009).

According to the last *Happy Planet Index* (HPI) report, no country in the world is able to achieve, all at once, the three goals of high life satisfaction, high life expectancy and one-planet living. In addition, the elaborated estimates show that between 1961 and 2005 developed nations became substantially less efficient in supporting well-being. In fact, in that period the average HPI calculated for 19 of the 20 original OECD members dropped by more than 17 percent (NEF, 2009, pp. 36-37).

One of the most successful capitalists of our age, *George Soros* calls the underlying ideology of global capitalism "*market fundamentalism*." According to market fundamentalism, all kinds of values can be reduced to *market values*, and the *free market* is the only efficient mechanism that can provide for a rational allocation of resources. (Soros, G. 1998)

The market as an *evaluation mechanism* has inherent deficiencies. First of all, there are *stakeholders* that are simply *non-represented* in determining market values. *Natural beings* and *future generations* do not have the opportunity to vote on the marketplace. Secondly, the preferences of human individuals count rather unequally; that is, in proportion to their purchasing power, the interests of the *poor* and disadvantaged are necessarily *underrepresented* in free market settings. Thirdly, the actual preferences of the *market players* are rather *myopic*; that is, the economic agents' own interests are often *misrepresented*.

These inherent deficiencies imply that free markets cannot produce socially optimal outcomes. In many cases *market evaluation* is misleading from either a social or environmental point of view. This means that market is *not a sufficient form* of evaluating economic activities.

In its present form capitalism does need counter-veiling forces. Both *politics* and *civil society* should play important roles in correcting the deficiencies of market fundamentalism. The instabilities and inequalities of the global capitalist system could feed into nationalistic, ethnic and religious fundamentalism. In order to prevent a return to that kind of fundamentalism, we should *correct* the excesses of *laissez faire capitalism*.

2 Competitiveness Ideology and its Failures

Competitiveness is the prevailing ideology of today's business and economic policy. Companies, regions, and national economies seek to improve their productivity and gain competitive advantage. But these efforts often produce negative effects on various stakeholders at home and abroad. Competitiveness involves self-interest and aggressivity and produces monetary results at the expense of nature, society and future generations. (Tencati, A. and Zsolnai, L. 2009)

The late *Sumantra Ghoshal* of London Business School heavily criticized the current management ideology, including competitive strategy. He argues: "If companies exist only because of market imperfections, then it stands to reason that they would prosper by making markets as imperfect as possible. This is precisely the foundation of Porter's theory of strategy that focuses on how companies can build market power, i.e., imperfections, by developing power over their customers and suppliers, by creating barriers to entry and substitution, and by managing the interactions with their competitors. It is market power that allows a company to appropriate value for itself and prevent others from doing so. The purpose of strategy is to enhance this value-appropriating power of a company..." (Ghoshal, S. 2005, p. 15).

Economic efficiency has become the greatest source of social legitimacy for business today. The focus on efficiency allows economics to neatly sidestep the moral questions on what goals and whose interests any particular efficiency serves. Ghoshal refers to Nobel-laureate institutional economist *Douglas North*, who demonstrated that there is no absolute definition of efficiency. What is efficient depends on the initial distribution of rights and obligations. If that distribution changes then a different efficient solution emerges. As long as the transaction costs are positive and large, there is no way to define an efficient solution with any real

meaning. And the transaction costs are not only positive and large but they are growing in our economically advanced societies (Ghoshal, 2005, p. 24).

Competition cannot tackle the challenges generated by an unleashed globalization enabled by privatization, deregulation and liberalization (Worldwatch Institute, 2006):

- the growing poverty and socioeconomic inequalities within and between nations;
- the delinking process between the richest and the poorest people/countries;
- the rise of an international criminal economy;
- the declining role of the state as a founding political institution and the absence of a real and effective political democracy at the global level;
- the increasing pressure on and the misuse/overexploitation and pollution of global environmental commons such as water, air and land;
- the depletion of biodiversity and natural resources;
- the loss of human values, such as peace, justice, dignity, solidarity and respect, in our societies.

Competition could be a very useful tool if it supported and fostered broad and shared innovation and emulation processes. But when the only purpose of our socioeconomic systems is to engage in a Darwinian “struggle for life” on a global scale, it results in a disruptive global war among companies, affecting also the overall well-being of regions, nations and cities.

3 Collaborative Business

If we want to get closer to a sustainable world we need to generate *virtuous circles* in economic life where good dispositions, good behavior and good expectations reinforce each other. The collaborative enterprise framework promotes a view in which economic agents care about others and themselves and aim to create values for all the participants in their business ecosystems. Their criterion of success is mutually satisfying relationships with the stakeholders. (Zsolnai, L. and Tencati, A. 2010)

The contrasting characteristics of the competitive and collaborative models are summarized in Table 1.

Table 1 *Competitiveness versus Collaboration*

	The Competitive Model	The Collaborative Model
Basic motive	self-interest	care about others and oneself
Main goal	maximizing profit or shareholder value	creating values for all the participants in the network
Criterion of success	growth in money terms	mutually beneficial relationships with the stakeholders

The skeptics, including most economists, may believe that the premises of the collaborative model are naive. Recent discoveries in social sciences suggest that this is not the case.

A new branch of psychology called *positive psychology*, initiated by Martin Seligman and Mihaly Csikszentmihalyi, studies the strengths and virtues that allow individuals, communities, and societies to thrive (Positive Psychology Center, 2007; Seligman & Csikszentmihalyi, 2000).

Positive psychology has been defined as a science of positive subjective experience, positive individual traits, and positive institutions (Seligman & Csikszentmihalyi, 2000), which aims at improving quality of life and preventing the pathologies caused by a barren and meaningless way of living. Positive psychologists try to improve everyday well-being, to make life worth living. As a supplement to the vast research on the disorders and their treatment, they suggest that there should be an equally thorough study of strengths and virtues, and that they should work towards developing interventions that can help people become lastingly happier (Seligman, Parks, & Steen, 2004).

Positive psychology focuses on three different routes to happiness (Seligman, 2002; Seligman, Steen, Park, & Peterson, 2005):

(i) Positive emotion and pleasure (the pleasant life). This is a hedonic approach, which deals with increasing positive emotions as part of normal and healthy life. “Within limits, we can increase our positive emotion about the past (e.g. by cultivating gratitude and forgiveness), our positive emotion about the present (e.g. by savoring and mindfulness) and our positive emotion about the future (e.g. by building hope and optimism)” (Seligman, Parks, Steen, 2004, p. 1380).

(ii) Engagement (the engaged life). This constituent of happiness is not merely hedonic but regards the pursuit of gratification (Seligman, Parks, & Steen, 2004). In order to achieve this goal, a person should involve himself/herself fully by drawing upon “character strengths such as creativity, social intelligence, sense of humor, perseverance, and an appreciation of beauty and excellence” (Seligman, Parks, & Steen, 2004). This leads to beneficial experiences of immersion, absorption, and flow.

(iii) Meaning (the meaningful life). This calls for a deeper involvement of an individual, using the character strengths to belong to and serve something larger and more permanent than the self: “something such as as knowledge, goodness, family, community, politics, justice or a higher spiritual power” (Seligman, Parks, & Steen 2004).

Peterson and Seligman developed the so-called Character Strengths and Virtues framework, which identifies and classifies strengths and virtues that enable human flourishing. It lists six overarching virtues, common to almost every culture in the world, made up of 24 measurable character strengths. The classification of these virtues and strengths is as follows (Peterson & Seligman, 2004; Seligman, Steen, Park, & Peterson, 2005):

- (1) Wisdom and Knowledge: creativity, curiosity, open-mindedness, love of learning, perspective;
- (2) Courage: authenticity, bravery, persistence, zest;
- (3) Humanity: kindness, love, social intelligence;
- (4) Justice: fairness, leadership, teamwork;
- (5) Temperance: forgiveness, modesty, prudence, self-regulation;
- (6) Transcendence: appreciation of beauty and excellence, gratitude, hope, humor, religiousness.

What we need in business and economics is a commitment to helping individuals and organizations identify their strengths and use them to increase and sustain the well-being of others and themselves. The discovery of the *Homo reciprocans* phenomenon in behavioral sciences supports this claim.

Samuel Bowles, Robert Boyd, Ernst Fehr, and Herbert Gintis summarize the model of *Homo reciprocans* as follows. *Homo reciprocans* comes to new social situations with a propensity to cooperate and share, responds to cooperative behavior by maintaining or increasing his or her level of cooperation, and responds to selfish, free-riding behavior by retaliating against the offenders, even at a cost to himself/herself, and even when he or she could not reasonably expect future personal gains from such retaliation (Bowles, S. and Gintis, H. 2011). This is certainly in line with empirical observations: people do produce public goods, they do observe normative restraints on the pursuit of self-interest (even when there is nobody watching), and they will put themselves to a lot of trouble to hurt rule breakers.

Robert Frank's research shows that socially responsible firms can survive in competitive environments because social responsibility brings substantial benefits for firms. Frank identifies five distinct types of cases where socially responsible organizations are rewarded for the higher cost of caring: (i) opportunistic behavior can be avoided between owners and managers, (ii) moral satisfaction induces employees to work more for lower salaries, (iii) high quality new employees can be recruited, (iv) customers' loyalty can be gained, and (v) the trust of subcontractors can be established. In this way caring organizations are rewarded for the higher costs of their socially responsible behavior by their ability to form commitments among owners, managers and employees and to establish trust relationships with customers and subcontractors (Frank, R. 2004).

These behavioral findings give us the hope that noble efforts of economic agents are acknowledged and reciprocated even in highly competitive markets. Institutions and individual behavior co-evolve in social interactions and shape the evolution of individual preferences; in turn, these preferences shape the overall evolution, and may lead to the emergence of new economic organizations (Shalizi, C.R. 1999).

4 World Religions and their Economic Teachings

World religions have alternative views on economic activities, which have great relevance for the renewal of capitalism. The economic teachings of *Judaism*, *Catholicism*, *Buddhism* and *Taoism* will be presented. Each of them challenges the way capitalism functions in our days. Other world religions (*Hinduism*, *Islam* and *Protestantism* e.g.) have developed their own alternative economic views which are also worthy of study. (Bouckaert, L. and Zsolnai, L. (eds.) 2011)

4.1 Jewish Economic Man

Meir Tamari has reconstructed the principles of Jewish economic ethics and the main features of the "Jewish Economic Man." (Tamari, M. 1987, 1988)

Judaism considers the role of the *entrepreneur* as legitimate and desirable. Entrepreneurs are morally entitled to a profit in return for fulfilling their function in society. The real problem is the challenge of *wealth*. How should the Jewish Economic Man use his or her accumulated wealth? What are his or her obligations to the other members of the community, especially to the poor and disabled?

It is an axiom of Judaism that stronger and more successful members of the community have a duty to provide for those who do not share their prosperity. The Hebrew word for charity (Tzedakah) has the same root as the word for "justice."

Jewish Economic Man should give 10-20% of his or her profit for *charity* - to aid weaker and less successful members of the community.

The central point of the Jewish Economic ethics is the insistence that one should *not cause damage* - directly, indirectly or even accidentally. As the rabbinic dictum says, "One has a benefit and other does not suffer a loss." This principle poses hard ecological and human constraints for economic activities. Jewish Economic Man needs to choose second- or third-best alternatives, which do not harm anybody.

In Judaism man is the pinnacle of God's creation so that everything exists for the benefit of humans. However, this imposes an obligation on men and women to hand over the world to *future generations* in a state that provides *equally well* for them.

In sum, we can say that Jewish Economic Man has two fundamental obligations. First, he or she can make profit if and only if his or her enterprise does not harm anybody. Second, he or she should give a portion of the generated profit for charity. (See also Pava, M. 2011)

4.2 Catholic Social Teaching

The Catholic vision of economic life is based on the *Social Teaching of the Church*. (U.S. Bishops 1986, Mele, D. 2011)

According to Christianity, the *human person* is sacred because he or she is the clearest reflection of God on the Earth. Human dignity comes from God, not from nationality, race, sex, economic status or any human accomplishment. Thus every economic decision and institution must be judged in light of whether it protects or undermines the *dignity* of human persons.

Catholic Social Teaching generates an interconnected web of duties, rights and priorities. First, *duties* are defined as love and justice. Corresponding to these duties are the *human rights* of every person. Finally, duties and rights entail several *priorities* that should guide the economic choices of individuals, communities and the nation as a whole.

Love is at the heart of Christian morality: "*Love thy neighbor as thyself.*" In the framework of contemporary decision theory this commandment can be formulated in such a way that actors should give the same weight to others' payoffs as their own.

Justice has three meanings in Catholic Social Teaching. Commutative justice calls for fairness in all agreements and exchanges between individuals and social groups. Distributive justice requires the allocation of income, wealth and power to aid persons whose basic needs are unmet. Finally, social justice implies the participation of all persons in economic and social life.

In Catholic Social Teaching human rights play a fundamental role. Not only are the well-known civil and political rights emphasized but also those concerning human welfare at large. Among these "*economic rights*" are the rights to life, food, shelter, rest, medical care and

basic education, because all of these are indispensable to the protection of human dignity.

The main priorities for the economy include the following:

- (i) the fulfillment of the basic needs of the poor;
- (ii) increased participation of excluded and vulnerable people in economic life;
- (iii) the direction of investments toward the benefit of those who are poor or economically insecure;
- (iv) economic and social policies to protect the strength and stability of families.

All persons are called on to contribute to the common good by seeking *excellence* in production and service. The freedom of business is protected but *accountability of business* to the common good and justice must be assured. Government has an essential moral function: *protecting human rights* and *securing justice* for all members of society.

In sum, we can say that Catholic Social Teaching favors serving the dignity of human persons. Economic activities are subordinated to this goal.

4.3 Buddhist Economics

Buddhist economics is based on the Buddhist way of life. The main goal of a Buddhist life is *liberation* from all suffering. *Nirvana* is the final state, which can be approached by want negation and purification of human character.

Schumacher described Buddhist economics in his best-selling book "*Small Is Beautiful*." (Schumacher, E.F. 1973)

Central values of Buddhist economics are *simplicity* and *non-violence*. From a Buddhist point of view the optimal pattern of consumption is to reach a high level of human satisfaction by means of a low rate of material consumption. This allows people to live without pressure and strain and to fulfill the primary injunction of Buddhism: "Cease to do evil; try to do good." As natural resources are limited everywhere, people living simple lifestyles are obviously less likely to be at each other's throats than those overly dependent on scarce natural resources.

According to Buddhist economics, production using local resources for local needs is the most rational way of organizing economic life. Dependence on imports from afar and the consequent need for export production is uneconomic and justifiable only in exceptional cases.

For Buddhists there is an essential difference between renewable and non-renewable resources. *Non-renewable resources* must be used only if they are absolutely indispensable, and then only with the greatest care and concern for conservation. To use non-renewable resources heedlessly or extravagantly is an act of violence. Economizing should be based on *renewable resources* as much as possible.

Buddhism does not accept the assumption of man's superiority to other species. Its motto could be, "*noblesse oblige*"; that is, man must observe kindness and compassion towards natural creatures and be good to them in every way.

In sum, we can say that Buddhist economics represents a middle way between modern growth economy and traditional stagnation. It seeks the most appropriate path of development, the *Right Livelihood* for people. (See also Zsolnai, L. (ed) 2011)

4.4 The Taoist Economy

Taoism (and Confucianism) greatly influences the economies of Far Eastern countries. Studying the economic system of Taiwan, *Li-the Sun* described the main features of the Taoist Economy. (Li-The Sun 1986)

"*Tao*" is the fundamental concept, which represents the way of *equilibrium* and *harmony* among myriad things of the Universe. Taoists believe that in the Universe two basic forces exist: yin and yang. *Yin* is the feminine principle; the yielding, co-operative force. *Yang* is the masculine principle; the active, competitive force. Yin and yang are complementary to each other. Humans need to find a balance between yin and yang forces in their own selves as well as in their societies. This results in the fulfillment of *Tao*.

In the Taoist economy two basic values play decisive roles, the *inner equilibrium* of individuals and *social harmony*. The former is necessary in resolving microeconomic problems while the latter is fundamental in handling macroeconomic issues.

At the *microeconomic* level the following yin and yang pairs are balanced in the Taoist economy:

- (i) public interest versus self-interest;
- (ii) morality versus profit;
- (iii) want negation versus want satisfaction;
- (iv) cooperation versus competition;
- (v) leisure versus work.

In the Taoist economy economic activities are directed not only by self-interest. Entrepreneurs should promote the supply of public goods, and services too. Profit cannot be the sole incentive of work and investment. Since profit comes from society, a portion of it should be returned to society in the form of social responsibility. The Taoist consumer is a want regulator even without income constraints. Want negation is valued. The maximization of wants is unwise and has detrimental effects on the community and the natural environment. In production the cooperative and competitive instincts are balanced. Competition without cooperation would create chaos, but cooperation without competition would generate poverty. For people, leisure and work have equal importance. Work produces wealth while leisure is necessary for moral development.

At the *macroeconomic level* the following yin and yang pairs are balanced in the Taoist economy:

- (i) the poor versus the rich;
- (ii) labor versus capital;
- (iii) public sector versus private sector;
- (iv) planning system versus market system;
- (v) stagnation versus growth;
- (vi) full employment versus price stability.

Balance between the poor and the rich requires equitable distribution of income and wealth. Taoist social policy aims at the elimination of artificial inequalities among people but does not try to eliminate natural inequalities altogether. Balance between labor and capital has two faces: one is the right proportion between labor production and machine production, and the other is the right proportion between labor ownership and capital ownership. Balance between

the public sector and the private sector is necessary because the public sector provides public goods and services while the private sector assures economic efficiency. Balance between the planning system and the market system is also important, for similar reasons. Balance between stagnation and growth requires some reduction of the natural growth rate of the economy. In the Taoist economy there is no trade-off between unemployment and inflation. Since yin and yang forces rule the economy, a balance between employment and price stability is feasible.

In sum, we can say that the Taoist economy is based on the balance of yin and yang forces and tries to actualize the inner equilibrium of individuals as well as social harmony. (See also Allinson, R. 2011)

Table 1 summarizes the different responses of the studied world religions to the economic problematic. Like other world religions Judaism, Catholicism, Buddhism and Taoism represent *life-serving modes of economizing* which assure the livelihood of human communities and the sustainability of natural ecosystems.

Table 1 World Religions and the Economic Problematic

	Basic Values	Economic Means
Judaism	causing no harm, solidarity	constraints on profit making, charity
Catholicism	love, justice	personal excellence, responsible enterprises, duties of the government
Buddhism	simplicity, non-violence	reduced consumption, using local resources, ecological conservation
Taoism	inner equilibrium of the individual, social harmony	yin & yang forces at micro-economic and macro-economic levels

5 Conclusions

Ethics and the future of capitalism are strongly connected. If we want to *sustain capitalism* for a long time we have to create a *less violent, more caring* form of it.

Economic activities should pass the test of *ecology, future generations* and *society* to get legitimacy in today's society.

- (α) Economic activities may not harm nature or allow others to come to harm.
- (β) Economic activities must respect the freedom of future generations.
- (γ) Economic activities must serve the well-being of society. (Zsolnai, L. 2011)

Ecology, respect for future generations and serving the well-being of society call for a *radical transformation of business*. The future of capitalism is highly dependent on its ability to adapt to contemporary ecological and social reality.

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