



## System Change Investing and Political Reform

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### Abstract

*System change is the most important sustainability issue. Flawed economic and political systems compel all companies to degrade the environment and society. For nearly all of US history, these systems enabled vested interests to strongly influence government and unfairly concentrate public wealth, in large part by deceiving, dividing and disempowering citizens. The US is quickly dismantling environmental and social protections. This will accelerate already rapid environmental and social degradation, and create growing problems for business and society. Political reform is essential because government largely controls the economy and constrains corporate behavior. Governments that are heavily influenced by vested interests probably will not substantially change on their own. The most powerful drivers of political reform potentially are public empowerment and corporate/financial sector influence. In the short to mid-term, System Change Investing (SCI) is one of the highest leverage, most effective ways to engage the corporate and financial sectors in political reform and system change. This article discusses the critical need to address, unfair concentration of public wealth, suppression of democracy, public deception and division, essential government changes, rational, big picture thinking, and the major actions required to achieve political reform, including uniting and empowering citizens and engaging the corporate and financial sectors through SCI.*

### 1. Political Reform

Flawed economic and political systems are the root cause of the major environmental, social and economic challenges addressed by the UN Sustainable Development Goals (SDGs). These shortsighted systems compel all companies to degrade the environment and society.

Very generally speaking, companies can voluntarily mitigate about 20 percent of short-term and long-term, tangible and intangible, negative environmental and social impacts in a profit-neutral or profit-enhancing manner. Beyond this point, rising mitigation costs often reduce profitability. If companies continue voluntary impact reduction, they will put themselves out of business long before reaching full impact mitigation. Our flawed economic and political systems unintentionally create a situation where companies must degrade the environment and society to survive. This largely is a system problem, not a company problem.

\* This article is based on the author's book *Global System Change: We the People Achieving True Democracy, Sustainable Economy and Total Corporate Responsibility*. The book provides extensive references and logic to support the positions summarized here.

Extensive, excellent work is being done in the Socially Responsible Investing (SRI) and corporate sustainability areas. But nearly all of this work is focused on voluntarily changing companies instead of the overarching systems that largely control corporate behavior. System change probably represents at least 80 percent of the sustainability solution.

Growing awareness of this is driving many economic reform movements, such as those promoting a green economy, circular economy, multi-capitalism and conscious capitalism. But in many ways, political reform is more important than economic reform because the political/government system largely defines, constrains and controls the economy, even with *laissez-faire* government.

Civilized society cannot exist without government, laws and regulations that uphold the rule of law. This principle states that individuals and businesses should be free to do what they want, provided that they do not harm others. If government fully enforced the rule of law against businesses, by preventing them from harming life support systems and society, a sustainable economy would quickly manifest. Voluntary economic reform efforts largely would be unnecessary. For example, companies usually would choose to develop products and production processes that greatly reduce or eliminate waste. The alternative, paying for the negative impacts (fully internalized costs) of waste, usually would be prohibitively expensive.

The suggestion here is not to abandon voluntary economic reform efforts. Political reform will take some time. Voluntary economic reform should be continued, while parallel, more effective political reform approaches are established that support and greatly accelerate economic reform.

Many economic reform efforts recognize the importance of political reform and promote government policy changes. But the primary focus often is on encouraging companies to voluntarily abide by sustainable economy principles. When system change is promoted, it frequently is at the mid-level or sector-level, for example, by internalizing a particular externalized cost. These approaches can have limited impacts because flawed systems severely constrain companies' ability to eliminate negative impacts and abide by circular economy and other sustainable economy principles. In addition, many high-level, overarching economic and political system changes are needed, beyond sector-level changes, to make full impact mitigation and sustainable operations the profit-maximizing approach.

Political reform efforts often focus on one issue, such as campaign finance reform. But all major aspects of the political system and broader society are connected. Narrowly focused efforts can be restricted by barriers and other factors outside their focus areas. Whole system approaches that address all relevant factors often will be more effective. Reform efforts also frequently focus on promoting a particular political philosophy or putting certain political parties or individuals in office. These efforts can distract attention from fundamental systemic problems that transcend parties and personalities.

To illustrate, over the past 30 years, concentration of wealth (inequality) has increased in nearly all developed countries, regardless of the political party or leader in power. This

primarily results from lack of democracy caused by inappropriate vested interest influence of government.

The US Founders intended that all eligible voters should have equal influence over government. If one person spends \$1 million on a politician's election campaign and another person spends zero, the two people obviously will not have equal access to and influence over the politician and government. To protect democracy and each citizen's right to equally influence government, campaign finance laws existed in the US for over 100 years.

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*“43 percent of US households cannot afford to meet basic needs.”*

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From the 1930s to 1970s, wages largely rose with economic growth and productivity. The US had the largest middle class in the world. A 1976 Supreme Court decision, *Buckley v. Valeo*, weakened campaign finance laws. Subsequent decisions, including *Citizens United* and *McCutcheon*, enabled wealthy individuals and large companies to make anonymous, unlimited campaign finance contributions.

As the wealthy gained greater control of both major political parties and government, a growing amount of public wealth was transferred to the top of society through extensive corporate welfare. Inflation-adjusted wages have been nearly flat for 40 years, while the economy and productivity continued to grow. The US now has the highest inequality among developed countries and nearly the highest in the world (Only Russia, Ukraine and Lebanon have higher inequality). Throughout US history, each generation did better financially than their parents. Today's young people are the first generation that will fare worse.

The US economy supposedly is strong. But 43 percent of US households cannot afford to meet basic needs. One study found that US citizens must earn \$35,000 per year to meet basic necessities. Only about 30 percent of the US working age population earns this much or more. The US has the second highest childhood poverty rate among developed countries.

From the 1930s to the 1970s, the US implemented many major environmental and social protection programs that broadly benefited society and strengthened the middle class. But few major programs have been implemented since the 1980s. Instead, many have been weakened or dismantled. This trend is accelerating. The US is rapidly scaling back environmental and social protections. This will further expand inequality and poverty, and place future generations at risk by degrading life support systems.

When one adopts a whole system perspective, this degradation is shown to be the expected outcome of our grossly flawed economic and political systems. These systems unintentionally place short-term economic growth and shareholder returns before all other factors, including the survival of humanity. Anything that interferes with ever-increasing economic growth and shareholder returns, such as environmental and social protections, must be removed.

Flawed systems financially benefit large companies and wealthy business owners in the short-term. But by degrading the environment and society that enable business and the economy to exist, they ultimately degrade companies and investors. Obviously no one

intended this degradation of society. It results from myopia—failure to see the big picture and think from a whole system perspective.

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*“Limited liability is a grossly unfair form of socialism because citizens/taxpayers are compelled to act as the owners of business on the downside (by paying for negative impacts) while receiving none of the financial upside.”*

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Public deception is a main factor allowing this degradation. The US Founders’ primary concern about democracy was the ease with which vested interests could mislead non-expert citizens. The main Founders, except for Alexander Hamilton, were greatly alarmed by the establishment of political parties. They did not want the new union divided into debating, acrimonious factions. The Founders knew that vested interests could take advantage of tribalistic tendencies and use emotional manipulation to divide and thereby disempower the people. This makes it difficult for citizens to work together on their many common interests, such as protecting life support systems and children. Dividing and disempowering the people enables vested interests to unfairly control government and take the public wealth.

Economic and political systems that degrade the environment and society obviously will change, probably soon, given the vast problems they are causing. Our only options are voluntary or involuntary system change. Involuntary change (collapse) would cause unprecedented trauma and disruption due to the large, interconnected nature of human society, and the many environmental and social tipping points that we are near or beyond. Avoiding collapse requires refocusing government (and by extension the economy) on the long-term well-being of society.

Achieving political reform at the pace and scale needed to avoid collapse and resolve the major challenges facing humanity requires many actions. Three key leverage points for political reform are internal government change, public empowerment, and corporate and financial sector engagement.

## **2. Government Change**

Extensive internal government changes are needed in the US and many other countries to refocus the government and economy on maximizing the long-term well-being of society. Governments that are heavily influenced by vested interests, such as the US government, are unlikely to substantially change on their own, unless they face severe crises or system collapse. But by then, it probably will be too late to avoid widespread suffering and disruption.

European and other governments often make positive changes, including promoting sustainable financial systems and increasing environmental and social protections. In the US, some politicians are seeking substantial changes that broadly benefit society. But most

pressure for change probably will come from outside government, primarily from the general public and corporate and financial sectors.

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*“One study estimated that the wealthiest US citizens avoid as much as \$3 trillion of taxes each year.”*

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This section discusses internal government change, mainly to help focus the efforts of external groups. US government changes are emphasized. But the principles and changes summarized here generally apply to many other countries.

The primary purpose of government stated in the US Constitution is to promote the general welfare. This encapsulates all other stated purposes. The Founders often used the word ‘posterity’. They were strongly focused on protecting future generations. Promoting the general welfare refers to protecting and maximizing the well-being of all current and future citizens.

The Founders intended to achieve this goal through the principle of democracy (all citizens equally control government). But they knew that democracy was an unworkable form of government for more than small groups. Average citizens usually do not have enough time to study complex issues and make the best decisions for current and future generations. The US is based on the principle of democracy. But it is structured as a constitutional republic (citizens equally control government through elected representatives).

James Madison, the chief architect of the US Constitution, said that the people are the only legitimate source of power in government. True democratic government is the agent of the people. Government uses the collective power of the people to protect their long-term interests and well-being.

The Founders intended to establish a new form of democracy that would be a shining light for the rest of the world. Their two primary goals were to promote the general welfare and establish republican government. But vested interests have thwarted the Founders’ intentions by dividing the people and taking control of government. Democracy has been replaced with plutocracy (rule of government and society by the wealthy).

At least several trillion dollars of public wealth are unfairly transferred each year to the small group that controls government through many forms of corporate welfare. Broadly defined, corporate welfare includes all unfair transfers of wealth from the general public to this small group. Major types of corporate welfare include fractional reserve lending, limited liability, externalized costs, unfair taxation, unfairly high prices, unfairly low wages and declining customer value.

The money supply in the US and many other countries largely is created by the private sector through fractional reserve lending. The Constitution assigns the right to create money to Congress (i.e. the people), not the private sector. When government runs a deficit, the private sector creates money, loans it to government and citizens pay interest on it (about

\$400 billion per year). In effect, citizens are paying interest to use their own money. If government created the money supply, citizens often would pay no interest.

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In addition, the profit from money creation largely belongs to the people, not bank owners. Citizens lose an additional at least \$100 billion per year by allowing private sector money creation. If the people reclaimed their right to create the money supply, federal individual income taxes potentially could be reduced by nearly 50 percent. National debt and deficit spending also could be greatly reduced or eliminated. A government-created money supply would be far more stable because the money supply would not be constantly expanding and contracting as loans are made and repaid.

Regarding limited liability, citizens and small business owners are held fully responsible for harm imposed on society. But limited liability caps the downside of corporate owners. ‘Limited liability’ is a misleading term. Liability does not disappear. It is transferred, mainly to taxpayers. A more accurate name would be ‘transferred liability’ or ‘taxpayer liability’.

High risk activities often produce high returns. By transferring the downside to taxpayers, limited liability often compels companies to engage in the most risky and destructive activities. This greatly increases total costs to society because citizens often pay to clean up problems caused by businesses. Limited liability is a grossly unfair form of socialism because citizens/taxpayers are compelled to act as the owners of business on the downside (by paying for negative impacts) while receiving none of the financial upside. A limited liability company is not a private entity. It is a grossly unfair quasi-public structure.

Externalities are real business costs and burdens imposed on society. Citizens pay for them through increased taxes, higher healthcare and other fees, and/or reduced quality of life. If companies were held responsible for the actual, real costs they impose on society, they would be highly motivated to develop lower impact products and services. Like limited liability, externalized costs greatly increase total costs to society by compelling citizens to pay to clean up problems caused by business.

Unfair taxation is another major form of corporate welfare. One study estimated that the wealthiest US citizens avoid as much as \$3 trillion of taxes each year through special deductions, exemptions, credits, loopholes, tax havens, tax underpayments, capital gains tax subsidies, regressive payroll taxes, the absence of taxes on financial transactions, and low effective corporate taxes (i.e. taxes actually paid).

Business controlled government creates extensive corporate welfare in the broader economy by enabling higher prices, lower wages and declining customer value. This unfairly increases profits and transfers substantial public wealth to the top of society. Government drives increased prices by suppressing competition, for example, by allowing mergers and acquisitions, subsidizing large companies, and prohibiting competition from the public sector.

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It promotes unfairly low wages by suppressing unions and labor in general. If the minimum wage had kept pace with inflation since 1968, it would be over \$21 per hour. Only 22 percent of the working age population in the US makes more than the equivalent of the 1968 full-time minimum wage.

The systemic requirement to provide ever-increasing shareholder returns places publicly traded companies under nearly constant pressure to increase prices and/or reduce quantity/quality costs. Customer and societal value decline as citizens regularly pay higher prices for lower quantities of lower quality products and services. To illustrate, in the airline sector, the increasingly obese US population often must endure rising prices, reduced amenities, and smaller, closer together seats.

Primary goals of political reform should be to establish true democracy and use the public wealth to equally and fairly benefit all citizens. As plutocracy is replaced with democracy, the people’s elected representatives will end the current massive, unfair public wealth redistribution to the top of society.

Many changes are needed in the US government to establish democracy and abide by the Founders’ intentions. The main Founders, again except for Alexander Hamilton, strongly opposed aristocracy in government. Democracy only can be achieved through rotation in office. This was common in the Founding era. Now legislators and judges often remain in office for decades. This cuts Congress off from the people and enables legislators to establish long-term, often financial relationships with vested interests. In 1947, Congress initiated a constitutional amendment to restrict Presidential terms. It now should complete the job by imposing term limits on itself.

James Madison and other Founders intended Congress to be the most powerful branch of government because it is regularly elected, and therefore closest to the people. The Founders intended the Judiciary to be the weakest branch because it is unelected, and therefore farthest from the people. They established this in the Constitution by giving Congress strong authority to structure and regulate the Judicial branch. Article III, Section 2, for example, gives Congress unlimited power to restrict and regulate the Supreme Court on appellate cases (nearly all Supreme Court cases).

The Constitution does not give the Judicial branch the authority to irrevocably void acts of the Legislative and Executive branches, a power known as judicial review. The Judicial branch unconstitutionally gave itself this power in 1803. This violates the Founders' intentions by making the Judiciary the strongest branch of government.

During the Civil War, President Abraham Lincoln warned that business had gained strong influence over government and would use it to achieve even greater control, for example, by appointing pro-business judges. Over the past 40 years, business-biased judges strongly facilitated plutocracy by largely dismantling US campaign finance laws. They also made many other decisions that benefited the wealthy business owners who essentially paid to appoint them.

For example, a 2012 Supreme Court decision found that generic drug manufacturers could not be held responsible for harm caused by their drugs because the FDA approved them. In other words, these companies could not be held responsible for selling drugs that sicken or kill people. Instead, citizens/taxpayers often would pay for the harm (corporate welfare).

Establishing democracy in the US requires placing the Judiciary under the control of the people by imposing term limits and limiting the power of judicial review. No other country appoints Supreme Court justices for life. The Constitution does not establish lifetime judicial terms. It says that justices shall hold their offices during good behavior. As some Founders believed, this could be interpreted to simply mean that good behavior is a requirement for remaining in office. Congress can impose term limits on the Judicial branch through legislation because the Constitution does not specifically establish lifetime judicial terms.

The Constitution implicitly assigns final judicial authority to Congress because it is closest to the people and has explicit authority to regulate the Judiciary. To establish democracy in the Judicial branch, Congress should pass legislation that restricts judicial review. No constitutional amendments are needed to do this or impose judicial term limits.

In The Federalist Papers, Alexander Hamilton pointed out that there is nothing in the Constitution that prevents Congress from reversing judicial decisions. To achieve the republican government established in the US Constitution, Congress should reverse judicial decisions that suppress democracy, including *Buckley*, *Citizens United* and *McCutcheon*.

Implementing popular election of the President also is essential for democracy. The Electoral College was established as a compromise at the end of the Constitutional Convention of 1787, in large part to protect the institution of slavery. In two of the past five Presidential elections, the candidate who received the most votes from US citizens did not become President. It is difficult to imagine a greater violation of democratic principles than this.

The Electoral College gives small state citizens more influence in electing the President than those from large states. It also compels candidates to favor swing states. All citizens

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are equal. This should be reflected in Presidential elections. In 1913, the 17<sup>th</sup> Amendment changed the means of selecting US Senators from state legislature appointment to popular election. It is time to finish the job by establishing popular election of the President.

Accurately measuring social well-being is another critical requirement for democracy. What gets measured gets managed. Focusing government primarily on economic growth often concentrates wealth and degrades society in other ways, as shown in the US and many other countries over the past 40 years. Social well-being is comprised of many factors, most importantly environmental protection and ability to meet basic needs. Environmental protection ultimately is the most important aspect of social well-being because humanity cannot survive if environmental life support systems are not clean and stable enough to support human and other life. Publishing accurate social well-being indicators and requiring government to focus primarily on protecting and enhancing these factors will maximize social well-being (promote the general welfare).

Weakening political parties also is essential for democracy. Smaller political parties that truly represent the needs of their constituencies could play useful roles in government. But the two monolithic political parties in the US have diverse constituencies. Their agendas mainly are set by wealthy campaign donors. As a result, regardless of which party wins, the wealthy benefit while life becomes more difficult for the vast majority of citizens, again as shown over the past 40 years (Shifting control of society from political parties to an enlightened, empowered public is discussed below).

Publicly funding political campaigns is another essential requirement for democracy. Business-biased judges found that spending money on political campaigns was equivalent to free speech. Wealthy citizens and corporations do not spend large amounts of money on election campaigns without the expectation of preferential treatment, as if they were giving to a charity. Obviously, preferential treatment is expected and, as shown over the past 40 years, received. Protecting citizens' right to equal voice in government requires that wealthy citizens be prohibited from unfairly influencing elections and government.

The public controls the airwaves and broadband. Campaign costs could be substantially reduced by requiring major media outlets to provide free airtime for election activities as a condition of their public licenses. Publicly funding political campaigns has the potential to vastly lower total costs to society by greatly reducing corporate welfare.

Effectively enforcing the rule of law is one of the most important government changes needed to establish democracy and promote the general welfare. The rule of law usually is applied well to individuals. They are held responsible through murder and many other laws. However, the principle is applied poorly to businesses in the US and many other countries. Companies are not held responsible for extensive environmental and social degradation (i.e. harm). This is the general mechanism that puts business in systemically mandated conflict with society. In competitive markets, it makes it impossible to act in a fully responsible manner (by eliminating all negative impacts) and remain in business.

There are many specific economic and political system flaws that fail to hold companies responsible (i.e. violate the rule of law). All of the government problems discussed above

facilitate rule of law violations (i.e. lack of term limits, dismantled campaign finance laws, limited liability, externalities, fractional reserve lending, corporate welfare, over-emphasizing economic growth, inadequate social well-being measurement, divisive political parties and inappropriate business influence on government). Additional system flaws relate to time value of money and myopic application of the concepts of economies of scale, free-trade and competitive advantage (failure to use whole system approaches that account for all negative and positive impacts).

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Time value of money is a foundation of many economic decisions. It says that future generations and the resources needed to keep them alive are worth far less than current people and resources. This often compels companies to take actions that degrade the future environment and society.

The above democracy violations and system flaws generally apply to many countries. Specific democracy violations vary by country. For example, in the UK, lifetime appointments in the House of Lords and lack of term limits in both Houses of Parliament suppress democracy. Lord is an honorific title. But in reality, there are no lords among humanity. All people are equal. No person has a right to rule other people for life. Establishing democracy in the UK requires popular election in the House of Lords and term limits in both Houses.

In addition, the UK has no specific constitution. Accumulated laws, court rulings and conventions are considered to be its implied constitution. Lack of a specific constitution promotes aristocracy, suppresses democracy and creates other problems. For example, Brexit probably would not have occurred if the UK had a written constitution. Constitutional-level decisions that could affect a country for generations should not be made by a simple majority of uninformed, easily misled, non-expert citizens. As discussed below, public deception by vested interests was a primary cause of Brexit.

Maximizing the well-being of society requires that important, complex decisions be made by people who have thoroughly studied the issues (i.e. experts), in the same way that rational parents rely on expert medical advice to treat children’s illnesses. The US Constitution intentionally makes amendments difficult. Two-thirds of Congressional or state approval is required for initiation and three-quarters of state approval is required for ratification. If the UK had a specific constitution, like the US, it probably would require a higher standard for major, Brexit-like decisions than a simple majority public vote.

The above government changes are essential for establishing democracy and maximizing the well-being of society. As discussed, it is unlikely that vested interest influenced

governments will voluntarily implement them. Change mostly will be driven by forces outside of government. Pressure for change largely could come from the general public and corporate and financial sectors.

### **3. Public Empowerment**

Citizens collectively are the most powerful force in society. They could quickly change any government or business. But vested interests frequently divide and disempower the people. This enables them to control government and take the public wealth. Uniting and empowering citizens is one of the most important drivers of government change. It is essential for restoring democracy and promoting the general welfare. This section discusses how vested interests divide the public and how people can be united and empowered to protect themselves and future generations.

The US Founders knew that citizens were vulnerable to emotional manipulation, deception and division. This is a main reason why they structured the US as a republic instead of a democracy. Vested interests have been using political parties and inflammatory, deceptive media to divide and disempower citizens for nearly all of US history. People often are tribalistically misled into blindly supporting their party, attacking false enemies (leaders and citizens in the other party), and ignoring major problems (plutocracy, corporate welfare, degradation of life support systems).

Issues that threaten vested interests, such as reducing greenhouse gas emissions, can be labeled conservative or liberal. Then people in the other party often oppose action on the issue without rationally considering it. For example, 97 percent of climate scientists agree that humans are substantially contributing to global warming. But 66 percent of Republicans do not believe we are. This is a testament to the ease with which vested interests can mislead non-expert citizens.

Average citizens are misled into supporting their political party. But neither party is focused on supporting average citizens. Studies by Princeton and Northwestern universities found that US legislators from both major parties consistently meet the needs and requests of wealthy campaign donors. Those of average citizens had no statistically significant impact on Congressional voting and public policy. This of course is the expected outcome in a system that allows unlimited, anonymous, legalized bribery.

Vested interest deception and division are tragic because they mislead citizens from both major parties into supporting actions that benefit the wealthy, but harm their children and themselves. Division also is tragic because people agree on nearly all major issues and have many common interests. For example, virtually all people want a strong economy, good jobs, low crime, good education and healthcare, a clean environment, good international relations, and efficient and effective government.

The vested interest manufactured civil war between conservatives and liberals is a main, if not the main, problem in the US and many other countries. As long as the people remain divided, they remain conquered and largely unable to protect their common interests. The

conservative-liberal civil war is a primary factor perpetuating plutocracy, corporate welfare and nearly every other major problem in society.

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*“To unite citizens and solve major problems, we must establish a Second Enlightenment—a rehonoring of objective science and rational, big picture thinking.”*

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Critical actions needed to unite and empower citizens include weakening political parties, requiring honest media, and promoting rational, big picture thinking. Political parties are not mentioned in the US Constitution. Politicians are supposed to serve the citizens who elected them and broadly promote the general welfare. But political parties often sit above politicians and compel party-line voting. This violates the Constitution because the people largely do not control political parties, and therefore are not controlling their elected representatives and government.

The first political party, the Federalists, was established by Alexander Hamilton and wealthy bankers and businessmen. The political party structure was used to overcome the new Constitution, control government and concentrate wealth. It is much easier for vested interests to control two large political parties than thousands of politicians.

Political parties can be weakened in several ways, including limiting their ability to fund political campaigns and advertisements. Governance structures could be implemented which ensure that members equally control agendas and all other party aspects. Financial contributions to parties also could be restricted. Citizens should be provided with summaries of candidate positions on all major issues and encouraged to vote based on these positions and candidate qualifications, instead of party affiliation.

Large parties could be broken up into smaller parties that better represent their diverse constituents. However, it should be emphasized that citizens’ common interests greatly outweigh their divergent ones. They should be encouraged to work together on their massive common ground, and then maturely seek compromise on areas of disagreement, as our Founders did during the Constitutional Convention.

Regarding media, from 1949 to 1987, the Fairness Doctrine required major media outlets to present both sides of controversial issues. But this requirement for honest media limited the ability to mislead the public, and thereby concentrate on wealth and political power. As a result, vested interest controlled government removed it. Now media essentially is allowed to lie to citizens, for example, by presenting vested interest views that humans are not causing climate change, without discussing the overwhelming evidence that we are.

Citizens cannot adequately exercise their natural right to self-government unless they have accurate information about major problems and potential solutions. Free speech is not an unrestricted right. Vested interest controlled media should not be allowed to mislead and divide the public to protect shareholder returns or other interests. Democracy requires that

media tell the truth. To achieve this, the Fairness Doctrine should be re-established and other honest media requirements implemented.

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The US was founded during the Age of Enlightenment (also known as the Age of Reason). The Enlightenment honored science and rational reasoning, and opposed the dogma, superstition and irrational thinking of the Dark and Middle Ages. Benjamin Franklin, Thomas Jefferson and James Madison were leading Enlightenment thinkers. They used rational thought to solve problems and develop a new and better form of republican government.

Public deception and division are driving society into a New Dark Age. Many citizens are misled into blindly believing irrational philosophies and dogma. To unite citizens and solve major problems, we must establish a Second Enlightenment—a rehonoring of objective science and rational, big picture thinking.

Overcoming the small government deception illustrates the need for this type of thinking. Libertarian and other conservative philosophies often emphasize the principle of small government. They believe that shrinking government and reducing regulations will enhance society. But adopting this as a general position or philosophy is irrational and counterproductive. As shown in our Constitution, the focus should be on promoting the general welfare (maximizing social well-being), not minimizing the size of government.

Regulations and government are essential for promoting the general welfare, enforcing the rule of law and prohibiting companies from degrading the environment and society. But this requirement to act responsibly often inhibits the ability to maximize shareholder returns. Companies could not say that they resist being held responsible so that they can make more money. The public would not be sympathetic. As a result, vested interests often mislead people into blindly opposing government and regulations.

Rational thought illuminates the irrationality of this deception. It is far more important to hold businesses responsible than individuals. People can and usually would voluntarily act responsibly if there were no requirements to do so. For example, most people would not murder anyone if murder laws were removed. But in competitive markets, companies cannot voluntarily act in a fully responsible manner and remain in business. This is why business regulations are essential. The rational conversation should focus on how to most efficiently and effectively implement regulations that hold companies fully responsible and uphold the rule of law.

Using the socialist label is another common public deception. During the Great Depression, President Franklin D. Roosevelt opposed business control of government and

the resulting unfair concentration of wealth. He implemented many programs that greatly relieved the suffering of average citizens. Expanding social welfare programs reduced the amount of public wealth available for corporate welfare. Vested interests could not argue that they opposed government efforts to help average citizens because it limited their ability to take public wealth. Instead, they often labeled President Roosevelt and his programs socialist and said that he was against capitalism. This deception is still widely used today.

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Rational thought shows the irrational nature of this position. The priority is not promoting capitalism, socialism or any other philosophy. The allegiance, as shown in the US Constitution, should be to establishing democracy and supporting whatever actions objectively maximize the well-being of society.

Capitalism and socialism largely are economic forms. The economy is the servant of society. Society takes priority. Democracy is the only sustainable form of society. It is based on citizens' innate rights to equality and self-government. Once democracy is established, citizens should be encouraged to consider practical options for achieving a goal in a particular situation, and then choose the option that objectively provides the greatest benefits for the least cost.

Philosophies such as socialism or capitalism often interfere with rational assessment of which option objectively maximizes social well-being. They also irrationally imply that society should do one or the other. Rational thought shows that the public and private sectors have strengths and weaknesses. The most effective option varies based on specific goals and circumstances. But acknowledging that the public sector sometimes can provide higher quality services at lower costs could limit private sector growth. To protect shareholder returns, vested interests mislead many citizens into blindly believing that the private sector nearly always is better than the public sector.

Healthcare provides a perfect example of how the socialism deception is used to protect shareholder returns, mislead the public, and compel citizens to pay higher prices for lower quality services. Every other developed country and many developing countries provide healthcare to all citizens through government-owned or managed healthcare systems. The US for-profit healthcare system is by far the highest cost, worst coverage system in the developed world. US citizens pay two to three times more for healthcare than citizens in most other developed countries, and get mediocre healthcare outcomes in return.

Many people in the US die or file for bankruptcy due to having inadequate or no health insurance. This rarely happens in other developed countries. The socialism deception is used to mislead many citizens into opposing public healthcare. But every other developed country proves that the public sector can provide lower cost, higher coverage and frequently superior results in the healthcare area.

Rational thought also can help citizens to see through the social welfare deception. Vested interest controlled media frequently castigates social welfare recipients, implying or

stating that they are lazy and taking advantage of the system. This facilitates cutting social welfare programs and freeing up more public wealth for corporate welfare. To illustrate the irrationality of this deception, there are far more people who are willing and able to work than available jobs. As a result, many unemployed people will not find jobs, no matter how hard they look. They are not lazy. Instead, our shareholder-focused economic system does not provide adequate jobs. Using public wealth to provide corporate welfare, instead of supporting these and other legitimate social welfare recipients, creates unnecessary suffering.

The populism movement is also often deceptive. Populism supposedly involves meeting the needs of average citizens. But populist movements and leaders sometimes degrade the lives of average citizens and facilitate further concentration of wealth. For example, many UK citizens voted for Brexit because they were misled into believing that immigration and EU regulations were the primary causes of their declining quality of life. But as in nearly all other developed countries, far more important drivers are vested interests' control of government and resulting concentration of public wealth. As Brexit limits trade and other economic activities, while concentration of wealth expands, the lives of many UK citizens will continue to get worse.

Enlightened, big picture thinking can help people to see through the economic growth deception. Vested interests mislead many citizens into thinking that economic growth broadly benefits society. But this metric mainly measures business sales growth. Most business assets are owned by a small group of wealthy citizens. As a result, economic growth mostly measures the financial well-being of wealthy business owners.

To illustrate the deceptive, often destructive nature of economic and shareholder return growth, from 2000 to 2007, 75 percent of profit growth among S&P 500 companies resulted from cutting employee wages and benefits. This growth did not benefit society. It cannibalized it. Wealth was transferred from average citizens to the top of society. As shown in today's supposedly strong US economy, economic growth frequently represents the already wealthy getting wealthier, while life becomes more difficult for the large majority of citizens.

Uniting and empowering citizens may be the most important change needed in society. Once united, the people can require democratic government that focuses on promoting the general welfare. But it could take some time to raise awareness, overcome lifetimes of emotional manipulation and vested interest deception, and end the conservative-liberal civil war. In the shorter-term, engaging the corporate and financial sectors potentially could drive government change far more quickly.

#### **4. System Change Investing**

The corporate and financial sectors strongly influence government in the US and many other countries. Large companies in the US regularly use campaign finance and lobbying to secure reduced regulations and requirements to act responsibly. This enables them to externalize more negative impacts and burdens onto society, and thereby increase short-term profits and shareholder returns. Holding companies less responsible for negative impacts (i.e. allowing greater rule of law violations) exacerbates the primary system flaw in the business

and economic areas—the failure to hold companies fully responsible for negative impacts. As discussed, this is the general mechanism that compels all companies to degrade the environment and society. It is a main root cause of the major challenges facing humanity.

Companies largely are not held responsible for negatively influencing government in this manner. Proven SRI mechanisms can be used to hold them responsible. This can compel businesses to drive government changes that make acting responsibly (by fully eliminating negative impacts) the profit-maximizing strategy.

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*“System change probably represents at least 80 percent of the sustainability solution.”*

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The global SRI market has grown to over \$23 trillion. Over the past 20 years, financial community pressure compelled nearly all large companies to implement sustainability strategies. Many pension funds and other large investors invest in ways that are intended to substantially benefit the environment and society. Nearly all SRI and corporate sustainability efforts are focused on company change and symptoms (the environmental, social and economic problems addressed by SDGs), instead of system change and root causes (flawed economic and political systems). As noted, system change probably represents at least 80 percent of the sustainability solution. But it gets relatively little attention compared to company change.

SCI shifts the focus of SRI and corporate sustainability from company change to system change. The process involves rating companies on system change performance and making strong business cases for using the ratings to develop SCI funds. As these funds grow, companies will be compelled to engage in system change, exactly as SRI compelled them to engage in sustainability. Given the strong influence that the corporate and financial sectors already have over government, they potentially could drive political reform faster than any other segment of society.

System change rating is more complex than the typical ESG rating used to produce SRI funds. The frame of reference is much larger. ESG rating mainly focuses on assessing corporate efforts to reduce negative impacts, for example, by lowering pollution and selling low-impact products. The frame of reference for system change rating ultimately is the whole Earth system and its sub-element—human society. Many ESG models contain some system-related metrics, such as campaign finance, lobbying and media campaigns. But accurate corporate system change rating requires measuring many other factors.

The first SCI model, Total Corporate Responsibility (TCR), was developed in 2003. The model utilizes a whole system approach. It is segmented into three performance categories—conventional ESG, mid-level (sector-level) system change, and high-level (economic and political) system change. Metric categories include efforts to address specific economic and political systems flaws, collaborative system change efforts, government influence activities, public system change disclosure, and supporting groups and segments of society that are seeking system change, including NGOs, academia and the general public.

TCR provides a strong, compelling business case for system change. As the human economy expands in the finite Earth system, negative corporate impacts return more quickly



to harm companies, often in the form of market rejection, lawsuits and reputation damage. Companies have strong financial incentives to reduce negative impacts. But they can generally eliminate only about 20 percent unilaterally. System change is needed to mitigate the vast majority of negative corporate impacts, and thereby protect the long-term well-being of business and society.

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*“Replacing one party or a leader with another often has limited impacts because flawed, myopic systems unintentionally compel destructive behavior, regardless of who is in power.”*

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The TCR model is based on proven ESG rating approaches that consistently produced superior investment returns. The approach can provide far greater sustainability benefits than any other type of SRI or impact investing because it is focused on the most important sustainability issue—system change. Financial institutions launching SCI funds will be seen as the true leaders in the \$23 trillion SRI market.

The best that current SRI and corporate sustainability efforts can do probably is to slow the rate of environmental and social degradation, because they are focused on symptoms, not root causes. SCI and related system change efforts are the only approaches that have the potential to reverse environmental and social degradation and achieve the SDGs. A growing number of financial institutions are assessing the systemic impacts of their portfolios. But this is still focusing on symptoms, instead of the flawed systems that cause the symptoms.

Non-judgment is an essential principle of TCR, political reform and system change. The wealthy citizens who control government and unfairly concentrate public wealth do not intend to degrade society. Their intention virtually always is to benefit, or at least not harm, it. The enemy is not well-intentioned leaders. It is the flawed economic and political systems that force them to take harmful actions. Replacing one party or a leader with another often has limited impacts because flawed, myopic systems unintentionally compel destructive behavior, regardless of who is in power.

Many corporate and financial sector leaders might resist system changes that limit their ability to unfairly take public wealth. But a growing number of enlightened leaders recognize that these systems increasingly harm business, by degrading the environmental and social systems that enable business to survive and prosper. Looking at the big picture shows that it is not rational, sustainable or fair to massively concentrate wealth among a small group of citizens, while the vast majority struggles, and often fails, to meet basic needs.

The private sector is essential for maximizing the well-being of society. But businesses have no right to prosper by degrading life support systems and society. This unsustainable form of business inevitably will change through voluntary or involuntary means. Businesses and investors will greatly benefit themselves and society by choosing the former option, before nature and reality impose the latter.

SCI models identify important corporate system change activities, and thereby provide system change roadmaps for companies. The approach represents a new paradigm in SRI and corporate sustainability. SCI ratings and funds can be launched quickly. As a result, System Change Investing potentially is the highest leverage, most effective way to drive political reform in the short to mid-term.

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