

Chapter 2

The Theory of Moral Capital

Abstract This chapter mainly interprets the concept, formation, and mechanism of the action of moral capital. Furthermore, it illustrates the point that morality, as a spiritual element of capital or a kind of spiritual capital, clings to physical capital while affecting physical capital by playing a unique economic role, thus trying to construct a theoretical system of moral capital.

2.1 The Concept and Value Realization of Moral Capital¹

Capital has a variety of forms, including physical capital, money capital, and human capital. Of these, human capital plays a decisive role in economic development (Zhao 1999). The American economist Theodore William Schultz, winner of the Nobel Prize for Economics, once pointed out that “in an economy possessing land and reproducible material capital like the production technology possibly owned by the US, but restricted by such problems that nobody can get any professional experience, that no one has ever received any school education, that no one has any economic information except the information in his own living area, that everyone is restricted by his living environment, and that people have a life expectancy of 40 years, the economic production of the economy will surely drop tragically. Without human investment to prominently improve human ability, low-level output will surely co-exist with extremely rigid economic organizations (Theodore 1990a).” However, human capital, which is directly connected with moral capital, prevents human capital from obtaining benefits. The improvement of human creativity and working skills depend on the correct value orientation, scientific moral spirit, and moral practice of people in society. Therefore, in the process of economic development, morality is certainly an important asset invested in production. “Why did the most developed countries in the world, including the US and some European countries, after developing the market economy for several hundred years, suddenly find that they did not know what the economy is at all, as if they were still at the medieval medical level before the foundation of modern medicine (Lu 1999)?” One of

¹ Originally titled as Moral Capital, *Jiangsu Social Sciences*, Issue 3, 2000 and *Ethics*, Issue 8, 2000. The paper has been included in *Moral Capital and Business Ethics* (Selected Works of Wang Xiaoxi), People’s Publishing House, 2009.

the main reasons is that they have never really understood the special roles played by morality in the economy.

2.1.1 Capital and Moral Capital

Capital, as an economic concept, is the value that creates surplus value under capitalism. The economic system of capitalism determines that capital, in the form of substances and thoughts, is a kind of value that creates profits. In modern times, “capital is a kind of capability which can be invested into production to create social wealth (Wang 1999).” “Scientifically, ethics has the function of encouraging people to constantly improve themselves, and at the same time, continually cherish and improve the interpersonal relationships within co-existence, so as to build a better living environment based on the concept of rational existence, pushing forward sustainable social development. Where the function is applied in production, human quality, especially moral quality, will naturally be improved, which will surely lead to self-motivation and harmonious cooperation. Consequently, the functions and benefits of tangible assets are maximized and labor productivity is thus increased.” In this sense, moral capital is a kind of capital (Wang 1999). Of course, it must be pointed out that only scientific morality can become a kind of capital in production.

2.1.1.1 Moral Capital is Intangible: It Is the Spiritual Aspect of Human Capital and the Spiritual Element of Physical Capital

Moral capital has the following characteristics:

First, man, as the subject of production, is the core capital that plays its roles, and makes profits as a result of that production. If man only participates in production as a kind of physical capital,² complete production cannot be realized, and thus profits and benefits cannot be made. In fact, things can only be assets or resources, rather than capital, if man is not involved. Man that participates in production as labor is more than an “economic man.” In the theory of traditional economics, the subject of economic activities is abstracted as the “economic man” who acts as a precondition for economic analysis. Economic man is defined as a man driven by the motivation of self-interest to pursue the maximization of self-interest. The fact is, in actual economic activities, that the subject thereof is the “moral man,” bringing with him economic, social, and environmental responsibilities, whose content is much richer than the “economic man.”³ Therefore, in terms of production, man is certainly controlled by certain consciousness and guided by certain values. The moral consciousness of man directly affects and restricts his enthusiasm and energy release.

² It is only a hypothesis for illustration. Man becomes “living labor” as long as he participates in production.

³ This is one of the conclusions of the opinions of American economic ethicists made by Lu Xiaohu (See Lu 1999).

Second, the benefits and profits made by physical capital in production largely depend on the value orientation of laborers and their responsibility for themselves and society. In recent years, Haier has gradually expanded its market share in Europe, and one of the reasons, as explained by foreign distributors, is that Haier products have begun to reflect the requirements and respect the habits of European consumers. For example, Haier washers have now totally occupied the stores of some foreign dealers who used to only sell Japanese washers. In the final analysis, this is Haier's responsibility for the interests of itself, of China, and of European consumers that have expanded its washers' market share in Europe and created more benefits and profits. This shows that moral capital is of greater significance than physical capital in terms of profit making. At the same time of making substances a kind of capital, morality activates physical capital further, and is thus the basis of profit making.

2.1.1.2 The Roles of Penetration, Guidance, and Restriction Played by Moral Capital

First, moral capital has penetrated into various aspects and levels of production rather than existing independently, and it plays roles based on its unique and independent value function. In a certain sense, production is a process in which human thoughts or spirits are materialized. History has proved that in a nation that ignores education and morality, production is obviously blind, having only the purpose of survival, and thus cannot create more benefits or profits. On the contrary, if the purpose of production is of a noble value orientation, the sense of responsibility of the laborers involved will penetrate into production. In addition, the rational spirit of being responsible for any legitimate interest runs through all aspects of distribution, exchange, and consumption. Therefore, aside from an increase in profits, expanded reproduction will be realized at the stage of updating, and the rationality of expanded reproduction will be further improved. In this sense, morality has become a major intension and a requirement of production, and an important condition of profit making through production, all of which can be realized in a socialist market economy.

Second, moral capital is a kind of "spiritual capital" or "knowledge capital." With advancement (idealism) or orientation, morality's involvement in production as a kind of capital will surely form a power, one that cannot be replaced by other kinds of capital. As an invisible "hand of rationality" or "power of rationality," morality realizes the rational operation of all kinds of capital involved in production, guiding people to maximize profits. The concept of "some people and some regions in China should be allowed to get rich before others so that these people and regions can lead the way to common prosperity for all" as put forward by Deng Xiaoping, is the goal of the economic development and socialist moral development of China. Moral ideals in the economy promote rapid economic development, and realize the legitimate interests of individuals and the common interests of the whole nation at the same time, which is the concentrated expression of the relevant functions, especially the orientation of socialist moral capital.

Third, moral capital plays a unique reconciliatory and restrictive role. Production requires harmonious interpersonal relationships, as well as rational systems and norms, which is another special content as well as an action model for moral capital involved in production. Essentially, the socialist market economy is based on laws and norms, something that is not a natural result. “Being” and “should be” are very different concepts. Only when morality plays its special role as a kind of capital, can the socialist market economy work normally instead of becoming out of order. The reconciliation of morality, on the one hand, promotes the rationality of social production relationships and interpersonal cooperation, and on the other hand, impels the institutionalization of morality. Consequently, benefits are maximized in every aspect of production, and various types of capital that participate in production supplement each other and maximize profits. There are reasons for some entrepreneurs to believe that harmonious interpersonal relationships are also a kind of capital, and that rational institutions create profits.

2.1.1.3 The Formation of Moral Capital is Slow and Arduous

The formation of moral capital is a unique process. First, moral capital forms as a result of the improvement in moral cognition and moral consciousness. One of the preconditions for moral capital to play its part in production is that man, as the subject of productive activities, must fully understand what morality is and what scientific morality is, and at the same time, guide his behavior using moral responsibility. However, moral consciousness cannot be developed overnight; it comes into being through the constant deepening of moral cognition, the cultivation of moral will, and the gradual strengthening of moral belief. Therefore, the improvement of moral cognition and consciousness is a slow and long-term process.

Second, the formation of moral capital is a systematic work, needing the joint efforts of schools, families, and society at large, especially in terms of enhanced education concerning social morals, professional ethics, and family virtues. Additionally, the formation of moral capital also relies on economic, technical, cultural, and educational development, the low level of which will certainly affect the improvement of people’s moral cognition and consciousness. In a company, the formation of moral capital requires both “hardware” and “software” development. Hardware development refers to working environment and conditions; while software development means improving management and operating systems, building a sound moral and cultural environment, enhancing moral education, and taking various effective measures to improve employees’ moral consciousness and the company’s overall moral quality.

Third, the formation of moral capital is an arduous process. In the socialist market economy, the coexistence of various economic sectors is likely to lead to different values and value orientations. Meanwhile, different moral opinions in the West have been constantly influencing people’s social life, which makes the formation of moral capital more complex. For example, some companies’ immoral behavior, such as cheating and fraud, is closely connected with their value positioning of putting

profits first, and making profits at the cost of sacrificing the interests of others. Therefore, during the formation of moral capital, we need to separate good values from bad ones, and encourage good behavior while correcting the bad, thus making scientific morality an important force in production.

2.1.2 Moral Capital Creates Value

As stated above, moral capital plays a role in various aspects of production. It improves product quality while shortening the necessary labor time per product. As a kind of rational intangible capital, moral capital, after participating in production, keeps creating tangible benefits and improving itself at the same time.⁴ The fact that moral capital creates value can be understood from the following aspects.

2.1.2.1 Human Moral Quality and Productivity

An improvement in productivity is marked by substances, but determined by man. I once pointed out that man in terms of socialist productivity exists under the identity of “master,” thus dominating both society and nature. Therefore, although man exists primarily as a living substance, his quality directly determines his creative labor and the speed of economic development. If man cannot exist as a real or complete man, or exist passively or even reactively, no matter how advanced the technology and equipment are, or how abundant the resources are, his productivity will certainly stay low. However, human quality is complex and diverse—it includes a combination of physical, psychological, cultural, ideological, political, and moral qualities, among which, moral quality is the fundamental one. Man, only by fully realizing his existence and the significance thereof, and by clarifying a noble value orientation for his existence, can build up a spirit of constant self-motivation and create the basic conditions for productivity development (Wang 1994). To be specific, “only with improved moral consciousness and cognition, higher comprehensive qualities, and fully motivated enthusiasm and initiative, could people consciously improve their professional ability, management level, and efficiency, and actively gain cultural knowledge and technology to improve their means of production, production technology, labor organization, and operating management. This can also lead to further innovations in production. In this way, the quantity, quality, and economic benefits of products will be greatly improved, and the development of productivity will be greatly promoted (Wei 2000).” We, therefore, have reasons to believe that

⁴ With the constant development and improvement of social relations of production, moral capital participating in production is also developed and improved. Since scientific morality is always determined by the material conditions of social life, the development and improvement of the relations of production will certainly promote the constant development and improvement of morality. Beside, only in socialist production could morality keep developing rather than turning into “moral doctrine.”

the moral consciousness and quality of man are also important elements of productivity, and that scientific moral quality will surely create more benefits and interests in production.

At the same time as determining human quality, especially moral quality, productivity is affected by a combination of various internal productivity elements and their levels of rationality. The reconciliation of various internal productivity elements is not a simple reconciliation between man and substances. Substances are possessed and controlled by man; therefore, the relationship between substances and man is, in essence, the reconciliation of the relationships of production, rights, and status between one man and another. If laborers can freely and independently control the means of labor, realizing their rational combination with the object of labor, interpersonal relationships and interpersonal interest relationships can be rationally reconciled, which will undoubtedly greatly improve man to cognize, improve, and develop the means and object of his labor (Wang 1994).

2.1.2.2 Management Morality and Business Vitality

Management, in essence, is about the management of man, and Taylorism, which takes workers as machines, will never meet the development requirements of modern businesses in China. “A company not respecting human rights and dignity drastically underestimates the personality and vitality of workers, and is thus only a source of revenue for the exchange of labor and money, while rejecting human nature (Wang 1999).” In the socialist market economy, such companies will gradually lose their time and space to exist.

Modern management should be human-centered, and fully reflect the morality of management, which is the only way to unite workers to realize normal business operations.

First, we must equate human dignity in order to vitalize workers. One of the basic goals of business managers is making their workers have a unified cognition of company development and arousing the enthusiasm of their workers in order to reach the developmental targets. However, the realization of this goal requires developing the workers’ sense of ownership over the company. The problem lies in how to keep the balance between the leadership of the business managers and the development of workers’ ownership over the company. In my opinion, business managers should be leaders with the attitude of workers. In other words, they not only carry out the overall planning and effective commanding but also try to advocate the human dignity of workers—they should tell workers that all staff members of the company, regardless of their positions, are equal. Therefore, managers should first of all respect their workers—aside from serving workers, they should ask for their opinions, turning “managing workers” into “managing with workers.” That is, the management goals, content, methods, and measures of managers contain the wisdom of all members of staff, and thus the company actually operates under an ideological guidance of all staff members. For companies with poor performance, one of the main reasons is that managers always put themselves high in the position

of “leaders,” and workers are merely passively controlled by management. Such a wide gap between managers and workers dampens the enthusiasm of workers. Once the balance of management is upset, the validity and profits of the company will vanish, pushing the company into a dead end.

Second, interests must be fostered in order to create more interest. Vital interests are the core concern of workers. Their enthusiasm derives from the maximization of their vital interests, and the equal realization of their interests. Therefore, to manage workers, a manager must first respect the interests of his workers. A qualified manager will put the interests of workers and the reconciliation of such interests foremost. In a company, the realization of workers’ interests (the proportions of obtained interests in relation to corporate interests and in due interests) and the equality of reconciliation of workers’ interests are always proportional to the future profit realization of the company. A worker whose legitimate interests cannot be obtained in a normal way cannot commit himself to work. Therefore, when the interests of workers are distributed irrationally or seriously unequally, even the most capable manager cannot avoid ultimate failure.

Third, managers take the lead in work. In a company, the image of its managers is directly connected with its fate. A responsible manager will bring hope to workers, so that even in case of temporary difficulty or frustration, workers will work hard as a team. On the contrary, a manager who makes workers feel hopeless despite their payment, and who always puts his self-interest first, will seriously destroy his workers’ enthusiasm. An irresponsible manager is actually a burden on the company, for his behavior improves product costs and lowers the company’s interests. Therefore, in a socialist market economy, regardless of the nature of the company, managers should be fully aware that their behaviors are silent orders and an invisible leverage, which directly affect the benefits and profits of the company.

2.1.2.3 Moral Content and Product Quality

All products are spiritualized substances. First, all products are designed based on the technological and cultural cognition and technical approaches of man. Therefore, the requirements of beer bottles are different from those of other kinds of bottles, bicycles vary from brand to brand, and so on. It can be said that each category of product has its unique culture and technical materialization. Second, all products are the materialization of the moral consciousness and quality of man, and the moral content of products determines the final product quality. Besides, the characteristics of products, aside from technological and cultural elements, largely depend on the morality contained therein. The morality and moral content of a product mainly consist of the human-centered design of the product, the responsibility contained therein, and the fundamental philosophy of product manufacturing.

First, human-centered product design is concerned with the physiological and psychological needs of man. “It shall, on the one hand, focus on the natural attributes of man, so that new products can technically meet practical human needs; and on the other hand, absorb artistic ideas in line with the spiritual human need to

create aesthetic product appearance for the consumer's enjoyment," thus "making products safe, reliable, comfortable, nice-looking and economical (Hu 1994)." For example, when making a glass cup, the vacuum cup is the best choice, since it is insulated. This makes users feel safe, comfortable, and satisfied. So although such cups are much more expensive than common glass cups, there are still consumers willing to pay the extra money for them. It tells us that the more a product meets the physiological and psychological needs of consumers, the more salable and profitable it is.

Second, product design is different from product manufacturing. That is to say, a design, no matter how excellent, cannot necessarily be transformed into products. To realize this transformation, a sense of responsibility must penetrate each aspect of production. Strictly speaking, a company aiming at building itself into a famous brand will always say no to nonconforming products. Even if nonconforming products are found, they shall never be sold to consumers. In China, many famous companies once destroyed nonconforming products for the purpose of showing society that all their products are qualified, and reminded employees to keep in mind that the manufacture of qualified products needed their responsibility and conscience.

There are reasons that some famous foreign and domestic companies are trusted by consumers. Just from the high quality of their products, consumers can see the rational spirit, and the preciseness and responsibility of their employees. Therefore, it is natural that the products of such companies would be salable and popular even without advertisements.

Third, corporate profits rest not only on product quality but also on the business philosophy of high quality and reasonable prices. The "tap water philosophy" used by Panasonic is the secret to its success worldwide. Panasonic set the goal of making better products with lower prices, just like producing tap water. This is a concentrated expression of the sense of responsibility for consumers. Product prices do not increase with an increase in product quality, but product quality nonetheless improves without any impact on price. In fact, the self-motivation and sense of responsibility of employees can, objectively, improve efficiency while comparatively lowering product costs.

2.1.2.4 Reputation and Market Share

It is undoubtedly true that reputation makes money. When summarizing the capitalist spirit, the famous German scholar Max Weber said, "Never forget that credit is money. If someone has lent me money and didn't ask for it back when it was due, he lent me the profits arising therefrom, or we can say that he gave me the profits that I could have made from the loan in that period of time. If a man with good credit borrows a lot and makes good use of the loans, he can make a lot of money therefrom (Weber 1987)." He also said, "Those good at making money will be the owners of others' wallets. Those known for always paying money on time can gather all the spare money from their friends, anytime anywhere." This opinion also applies to the production and operation of companies. When consumers trust the products of

a company and are willing to buy them, they are giving money to the company. In Germany, from large corporations like Benz to small and medium sized enterprises (SMEs), they all believe that they are not only selling products but also credit. For them, selling credit is more important than selling products.⁵

In China, many famous companies know the relationship between credit and market share very well, as well as that between market share and profits, and they take credit as an important part of their existence. On the one hand, they penetrate credit into the whole process of production, in order to ensure product quality. On the other, they build up credit in sales and service, so that credit becomes their basis for profit maximization. They know that once credit is lost, the conditions and reasons for them to exist in the first place will disappear. The “super nanny service” provided by Jiangsu Chunlan, the “entire care-free service” by Shanxi Bole Group, and the “12345” service norm developed by Little Swan, have all created satisfactory social and economic benefits. Several years ago, a newspaper once published an article titled *Morality Creates Order*, which recorded the news that a fridge plant received increasing orders while its peers were all facing a slump. The reason was that the plant adhered to the principle of “not selling nonconforming products,” which helped it win consumer trust and a bigger market share. It tells us that though corporate credit is priceless, it can create enormous economic benefits.

2.2 Dependence and Independence of Moral Capital⁶

The theoretical research of “moral capital” has been widely and actively echoed by the theoretical cycle. The emergence of the concept of “moral capital,” as a natural outcome of the combination of the economy and ethics, derives from the super economic analysis of the traditional concept of capital. To better define the concept of moral capital and clarify confusion arising from it, this section will, from the perspective of capital’s duality, renew long preconceived ideas about capital in a more complete and wider sense. At the same time, it will systematically expound the theory of “moral capital” as a new concept to help people greatly understand it.

2.2.1 *The Dependence of Moral Capital*

Due to its own characteristics, moral capital must rely on physical capital—it cannot exist independently or work normally without physical capital. Physical capital is a kind of value entity, which, with integrated values and use values, distributes

⁵ See *Yangtze Evening News*, October 28, 1998, second page (A).

⁶ Originally titled as The Third Study on Moral Capital (co-written by Zhu Huiyu), *Jiangsu Social Sciences*, Issue 6, 2002; reprinted fully in *Ethics*, Issue 2, 2003. This paper has been included in *Moral Capital and Business Ethics (Selected Works of Wang Xiaoxi)*, People’s Publishing House, 2009.

certain benefits to its owners. It mainly includes entity capital, financial capital, and equity capital. Having a scientific picture of the dependence of moral capital is not only a basic requirement to understand the concept of moral capital deeply but also a basis for moral capital to perform its unique roles. The dependence of moral capital can be understood from the following aspects:

2.2.1.1 The Direct Purpose of Moral Capital Management is Promoting the Appreciation of Physical Capital

The direct purpose of capital management is obtaining appreciation, as is the direct purpose of moral capital management. However, the difference is that moral capital appreciation manifests as the appreciation of physical capital. If capital management is limited by metaphysical thought, it will certainly be abandoned after losing its technical effectiveness. For this reason, some scholars pointed out that “the use-value of physical capital is embodied in physical capital; therefore, to obtain the use-value of moral capital, it is necessary to combine intangible capital with physical capital (Lei and Liu 1999).” This means that intangible capital (including moral capital) can only realize its actual value after being materialized into physical capital. Of course, the “materialization” herein is different from the “materialization” put forward by György Lukacs. In this case, “materialization” refers to moral capital that plays its unique roles by participating in the whole process of capital management, thus constantly promoting the maintenance of value and the increase of physical capital. When talking about cultural capital (including moral capital),⁷ Bourdieu believes that a transformation is an inevitable necessity. He writes, “Capital depends on the field in which it functions,⁸ and at the cost of the more or less expensive transformations, which are the precondition for its efficacy in the field.”⁹ The essence of the transformation is that moral capital ultimately facilitates the appreciation of physical capital to produce the type of effective power within the area and process. At the same time, Bourdieu criticizes the partial opinions of “economism” and “semiotics,” and confirms the possibility of the transformation from intangible capital to physical capital. In fact, only by playing its unique roles could moral capital, which relies on physical capital, ultimately transform into

⁷ Bourdieu thought that to scientifically “explain the structure and functions of the social world,” we should “introduce all forms of capital,” and divide capital into the three basic forms of “economic capital,” “cultural capital,” and “social capital.” According to his interpretation, moral capital, in a certain sense, is included in “cultural capital” (see Bourdieu *Cultural Capital and Social Alchemy: An Interview with Bourdieu*, translated by Bao Yaming, People’s Publishing House, 1997, pp. 189–211).

⁸ Bourdieu said, “From the perspective of analysis, a field may be defined as a network or a structure formed by the objective relations between different places” (see *Cultural Capital and Social Alchemy: An Interview with Bourdieu*, translated by Bao Yaming, Bourdieu People’s Publishing House, 1997, p. 142).

⁹ *Cultural Capital and Social Alchemy: An Interview with Bourdieu*, translated by Bao Yaming, People’s Publishing House, 1997, p. 192.

physical capital or ultimately promote the appreciation of physical capital at a substantial level of value. In this way, moral capital obtains the practical significance of its existence, thus can be acknowledged and valued by society. Physical capital management also internally requires moral capital. After penetrating into physical capital, moral capital will play its unique roles, maximizing physical capital and facilitating its appreciation. It can be said that the dependence of moral capital is essentially embodied in its promoting the appreciation of physical capital, thus realizing its spiritual and material value.

2.2.1.2 The Input of Moral Capital Depends on the Input of Physical Capital

The input of moral capital, as a precondition of the scientific management of moral capital, depends on the input of physical capital. In other words, the input of moral capital is accompanied by the consumption of physical capital, including various human, physical, and financial resources. Specifically speaking, physical capital works on moral capital in the following ways: first, effective moral education is provided to employees to improve their moral quality, thus realizing the effective input of moral capital. It mainly takes place in four areas: families, schools, relevant organizations, and society. Moreover, the realization of effective education requires the participation of material means—various material or physical educational resources are invested and consumed. Second, morality is put into practice. Only by applying morality to real situations could employees internalize moral principles and rules as moral beliefs, thus realizing the effective input of moral capital. In fact, morality as a spirit requires practice and must be put into practice to realize its values. However, moral behavior, no matter how noble it is, cannot be realized without the participation of a physical intermediary. Morality only existing in thought is meaningless and cannot even be labeled as “moral behavior.” During the process of putting morality into practice, a physical intermediary always gets involved in the form of physical capital, namely, human, physical, and financial resources. Third, a social moral environment is built. The input of moral capital requires an improvement in man and moral quality, thus requiring a social moral environment that contains a soft moral environment and a hard moral environment. On the one hand, the construction of the former includes creating a social moral atmosphere, as well as building a social moral assessment system, and a social credit system. The latter includes constructing human-centered public utilities, creating public artworks advocating morality, etc. Needless to say, both conditions require human, physical, and financial input of companies. Without such input, the construction of the moral environment will certainly be unrealistic due to the lack of physical support. In fact, aside from acknowledging that moral capital can be inherited and passed, more importantly, we should realize that essentially, the input of moral capital certainly relies on the input of physical capital, which is independent of moral capital. It can be said that the particularity of moral capital in terms of its input fully reflects its dependence.

2.2.1.3 The Value Realization of Moral Capital Depends on the Management of the Original Capital

All kinds of capital must exist in mobility, which is a key feature of capital. The maintenance of value and the increase of physical capital can only be realized during the process of capital management. Likewise, the unique value of moral capital can only be realized when it is present in mobility. The difference is that moral capital cannot participate in capital management to realize its value independently without physical capital; it must participate in the management of the original capital, that is, the capital management with physical capital as the subject. In *The Second Study on Moral Capital*, I point out, “the management mechanism of moral capital, essentially, is playing roles in the process of production, exchange, distribution and consumption (Wang and Yang 2002).” It can be said that the production, exchange, distribution, and consumption based on physical economic goods is the process to realize the maintenance of value and the increase of physical capital, and also the process in which moral capital plays its roles and realizes its values. During production, moral capital “ensures win-win production results, human-centered means of production, and ecological products.” In exchange, moral capital “corrects the wrong motives of exchange caused by the irrational pursuit of profits, overcomes the ethical defects in exchange, and internalizes the negative external effects of exchange results.” In distribution, moral capital ensures a more reasonable distribution. In consumption, moral capital makes consuming behavior more rational, thus promoting sustainable and steady economic development (Wang and Yang 2002). Of course, moral capital can only play the above roles with the participation of physical capital; otherwise, moral capital is powerless and certainly cannot realize its values. In fact, the main values of moral capital is directly participating in the management of physical capital and playing its unique roles in various aspects, thus ultimately realizing the appreciation of physical capital and itself in different dimensions. The reliance of moral capital on the management of physical capital is a main expression of its dependence.

2.2.1.4 The Normal Management of Moral Capital Depends on the Support of Relevant Elements

The smooth management of moral capital depends on the support and guarantee of relevant elements. From microcosmic, mesoscopic, and macroscopic perspectives, we can see that the moral qualities of humans, the conditions of business ethics, and the social environment are the three elements supporting and guaranteeing the normal management of moral capital. First, at the microlevel, moral capital does not exist without man and his moral qualities. The management of moral capital is certainly human-centered, so capital management without the participation of man is meaningless and nonexistent. Particularly, in a mature market economy, business development, and the management of moral capital necessarily call for modern entrepreneurs with a high moral quality. It can be said that man and moral capital

are naturally inseparable, and the combination of moral capital and man as well as his moral quality is a necessary requirement for the existence and value realization of moral capital. Second, at the meso-level, moral capital's participation in capital management as well as realization of the maintenance of value and increase of physical capital are closely related to the ethical improvement of relevant social organizations. In reality, a company with low moral quality will surely ignore the functions of morality and overlook the due position of moral capital. The support and guarantee of business ethics, especially management ethics, lay a foundation for moral capital to fully play its roles. The improvement of management ethics enables companies to develop and manage moral capital in a more scientific and conscious manner during economic practices. In other words, the improvement of business ethics (especially management ethics) and the functioning of moral capital are interdependent. At the macro-level, the appearance of moral capital is determined by the support of the social environment. When economic and social development reaches a certain level, and with the support of social norms (such as laws, regulations, and policies), it is possible for moral capital to emerge and play its roles. In a society whose systems allow immoral behavior to create profits, morality is certainly ignored, making it impossible for moral capital to play its roles.

2.2.2 The Independence of Moral Capital

While participating in the various operating aspects of the modern market economy, moral capital always stays in line with the management of physical capital. By running through the entire process of managing physical capital, moral capital plays its unique roles in production, exchange, distribution, and consumption, thus realizing its inherent value. In addition to dependence, moral capital also features independence due to its particularity unlike traditional capital. In fact, such particularity makes moral capital independent from other types of capital. Only by managing moral capital, which is based on a scientific analysis of its particularity, are we truly able to realize the value of moral capital and make moral capital fully play its roles.

2.2.2.1 The Input of Moral Capital is Universal

The independence of moral capital, in terms of input, manifests as a unique universality. From the theoretical and practical perspectives, we can see that unlike the input of other kinds of capital, which is limited in certain companies, industries, and fields, the input of moral capital is universal—companies, regardless of their natures and types, input moral capital in their business operation consciously or unconsciously. Besides, companies are required to add moral capital into their business operation constantly to manage moral capital in a more optimal way. Without sufficient input, moral capital cannot fully play its roles. Furthermore, a company ignoring the significance of moral capital will gradually lose the various tangible and intangible benefits brought by its previous input of moral capital. There are two

reasons. Objectively, the external pressure from the social environment forces companies to input moral capital constantly. To maximize its benefits, a company must input moral capital according to the actual situation and use it in a scientific manner, thus making it fully play its roles for economic activities. In the Prisoner's Dilemma of game theory, each prisoner has two strategies and a strictly dominant individual strategy, that is, no matter what strategy is taken by B, A can maximize his benefits (the benefits of A is higher than those of B) through this strategy. "However, if both prisoners take another strategy (a more cooperative strategy) rather than the strictly dominant strategy, their goals can actually be achieved in a bigger way (Sen 2001)." Likewise, external restrictions from the social environment and internal requirements for the realization of self-interest force companies to behave more cooperatively and credibly in real economic activities. In a general sense, there are necessary objective reasons for companies to input and add moral capital constantly. Subjectively, while pursuing material benefits, companies also have spiritual pursuits that are especially of moral realms. The existence of a company is of both economic and spiritual significance. In society, it plays a certain moral role while simultaneously undertaking certain moral obligations. A company is composed of man while man has his own different kinds of unique pursuits, among which, those at higher levels are all related to mortality. Therefore, man in society and companies consisting of man, while simultaneously pursuing material benefits, can input moral capital consciously and independently.

2.2.2.2 Moral Capital has the Function of Optimization

The independence of moral capital, in terms of capital management, is embodied in its function of optimization. That is, the management of moral capital can activate physical capital, facilitate the realization of the "neighborhood effect (Buchanan 1991)" of efficiency, and encourage companies to realize economies of scale in a wider sense.

First, the optimization function of moral capital manifests as activating physical capital.

While expounding the general formula for capital, Marx begins by stating, "The circulation of commodities is the starting-point of capital. The production of commodities, their circulation, and that more developed form of their circulation called commerce, these form the historical groundwork from which it rises. The modern history of capital dates from the creation in the 16th century of a world-embracing commerce and a world-embracing market."¹⁰ Capital in ceaseless mobility is "alive" and thus can be called "capital." With the function of optimization, moral capital activates physical capital to improve its mobility and circulation rate. Besides, by enhancing the cohesion among employees and their sense of ownership over their companies, moral capital promotes the rational management of physical

¹⁰ *Collected Works of Karl Marx and Friedrich Engels*, Vol. 23, People's Publishing House, 1972, p. 169.

capital. Moreover, by improving corporate reputation, moral capital activates the original assets of companies. In short, when working with physical capital, moral capital can play its role of optimization, which is commonly known as “activating tangible assets with intangible assets.” In addition, the involvement of moral capital in economic activities can prevent the occurrence of decreasing marginal revenue. As reflected by real economic performance, under certain circumstances, decreasing marginal revenue did not occur, which is explained as the results of technical progress based on the New Growth Theory appearing after the 1980s. However, it is irrefutable that moral capital is certainly another reason. First, technical progress enables people to buy machines with a higher technical content at the same cost of money capital. When efficiency is greatly improved, insufficient utilization of machines and decreasing capital revenue can be avoided. Similarly, the participation of moral capital in economic activities can also improve efficiency, thus preventing the occurrence of decreasing capital revenue. Second, moral capital, at a deeper level, determines the direction of technical progress and the degree of technical application. The management of moral capital influences man, thus influencing the development and utilization of technology. In fact, when human moral quality is improved, scientific research will be more active, the transformation from technology to products will be smoother and the utilization of technical products will be more rational. In other words, the higher the moral capital management level is, the better moral capital can play its roles, and the higher the possibility of economic growth.

Second, the optimization function of moral capital manifests as the efficiency of “neighborhood effects.”

In the process of circulation, moral capital is of universal and efficient neighborhood effects. In particular, morality can optimize economic activities, making some inefficient neighborhood effects become efficient. Allen E. Buchanan mentions in *Ethics, Efficiency, and the Market* that “externalities critics of the market, have been quick to point out the pervasiveness and seriousness of neighborhood effects, or externalities, as a key source of the market’s failure to achieve efficient outcomes (Buchanan 1991).” It is true that negative externalities will lead to inefficient economic activities. “More of the chemical is produced than would be produced if the total costs of production, including the costs to breathers of polluted air, were taken into account in establishing the equilibrium price for the product (Buchanan 1991).” Moral capital can reawaken people to pay attention to third-party costs which have been ignored, making them view and solve related problems from a more responsible and forward-looking perspective, thus avoiding the occurrence of inefficient neighborhood effects. Besides, “positive externalities (beneficial third-party effects) are also inefficient.” It is like a vaccination, which not only benefits those who have been vaccinated but also those who have not, as the probability of infection is lowered (Buchanan 1991). This can be called “free riding.” However, the neighborhood effects of moral capital are not only efficient but also can play active roles in the circulation of moral capital, thus optimizing externalities and preventing “free riding.” When studying systems and their transformation with economic methodology, Douglass C. North mentions, “I’m talking about values instilled by families and education. They make people restrict their behaviors so that they would not be free

riders (Douglass 1991).” He also believes that the optimal solution to the problem of “free riding” is using the power of ethics and morality, which is economical, practical, and workable. Therefore, managing morality as a kind of capital to make it play its unique roles is the most economical and practical solution to the problem of “free riding.”

Third, the optimization function of moral capital manifests as promoting companies to realize economies of scale.

The management of moral capital helps companies to realize moderate capital expansion both internally and externally, thus realizing economies of scale. The “economies of scale” essentially means that “in the context that other conditions remain unchanged, as input increases, the output greatly increases.” “The main reason for the formation of economies of scale is cost reduction (Qin 2000).” In a company, internally, good management of moral capital can develop employees’ sense of ownership over the company and arouse their enthusiasm, thus increasing productivity with a low cost and expanding the scale of production and output at the same time. Moreover, by virtue of its good social image and existing brand(s), as well as its original reputation and popularity, it can guide consumers to acknowledge and trust its new products and brand(s) and accelerate market positioning and consumer acceptance of its new products and brand(s). Thus, it can realize the branding, serialization, and large-scale production of products while lowering the costs arising from guiding consumers to accept new products and brand(s). In this way, its economies of scale with external expansion are realized. Externally speaking, on the one hand, the company wins the trust of its partners, and thus builds a sound, long-term, and stable partnership that is based on an advanced corporate culture and a good reputation brought by moral capital. On the other hand, morality helps the company widely spread its brand(s). By transferring its image or brand(s) with compensation instead of inputting physical capital (which is the ritual of economic expansion), it can expand its economic scale in a short matter of time, thus realizing the economies of scale.

2.2.2.3 Moral Capital Regulates and Guides the Capital Market

First, moral capital regulates the capital market to make it rational.

In the capital market, the independence of moral capital manifests as a regulator of the capital market, making it rational. It is true that China’s capital market still needs further regulation—investor litigation and compensation systems are still defective and illegal fund raising is still rampant. Particularly, after the Yinguangxia scandal broke, investors started to have grave doubts about the independence and justice of some intermediaries and the credit of some listed companies. We cannot deny that in some sense, China’s stock market is financing-oriented, and the capital market is predominated by speculation rather than investment. Therefore, our goal is to build a sound, investment-oriented capital market. To realize this goal, the first problem that must be solved is information asymmetry in the capital market. The great economist George Akerlof points out that in the market for

lemons (used-goods market), serious information asymmetry will lead to adverse selection illustrated by the price curve in general economic theory,¹¹ and ultimately greatly restrain market vitality. The key to solve the problem of information asymmetry and prevent China's capital market from turning into an awkward "market for lemons" is morality. It has been theoretically and practically proven that moral capital management can effectively solve this problem. In fact, the participation of moral capital in economic activities is helpful in developing the professional ethics of the jobholders of intermediaries. With moral intermediaries, financial and audit reports will be issued independently and justly to guarantee that information obtained by investors are true and reliable. At the same time, the economic activities of listed companies will be regulated to ensure legal, sound, and rational business operations. In this way, investors will have a clear picture of listed companies, and their doubts caused by information asymmetry will be removed. Once the problem of information asymmetry is solved, the capital market will see less deception and cheating, and investment will prevail over speculation. As a result, the capital market will walk into prosperity.

Second, moral capital guides investors to invest in companies with a sense of social responsibility.

In the capital market, the independence of moral capital also manifests as guidance for investors. In addition to working with physical capital, moral capital, a kind of capital that is as important as physical capital, has found a new way to play its unique roles in the form of moral indexes. On July 31, 2011, Financial Times launched eight FTSE4GOOD "moral indexes" at London Stock Exchange in the UK. When explaining the idea of "moral indexes," the CEO of Financial Times, Mark Makepeace indicates that the indexes were launched at the request of investors. He states, "While choosing investees, investors showed a strong preference to companies with a sense of social responsibility. Recently, investment on such companies has quadrupled (Liu 2001)." Moral indexes judge and select companies based on certain standards. They encourage investors to invest in companies that have a sense of social responsibility and high moral quality, which makes the management of moral capital more practical and feasible. Superficially, the change of moral indexes guides investors; however, in actuality, companies' management of moral capital is the real source of power behind it. In new economic conditions, for a company, "it is the PE ratio rather than capital and assets that determine its corporate value; while the PE ratio is determined by a price-to-eyeball ratio, or 'attention', rather than the expectation of investors (Zhang 2000)." Since the "attention" is largely determined by the moral indexes of companies, those performing well in the input and management of moral capital tend to have higher moral indexes, thus attracting more investors and obtaining higher economic returns. This manifests as

¹¹ In general economic theory, the interpretation of price curve is that for a commodity, when its price increases, its market demand decreases, and there will be fewer buyers; when its price decreases, its market demand increases, and there will be more buyers. If in a market, the information of the buyer and seller is serious asymmetric, adverse selection will occur, that is, the commodity price decreases, the market demand decreases and there are fewer buyers.

higher aggregate financing and share prices. On the contrary, companies that ignore or even despise morality will have low “moral indexes.” If they are unable to attract investors, they will consequently suffer from a slump in share price.

2.2.2.4 The Value Realization of Moral Capital is Multi-dimensional

The value realization of moral capital is multi-dimensional. It is determined by the dependence of moral capital that the direct goal of moral capital is facilitating the appreciation of physical capital. However, the appreciation of physical capital or material economic goods is not the only value embodiment of moral capital. In fact, through scientific management, moral capital can realize its value in different dimensions. First, moral capital realizes its value by facilitating the maintenance of value and the increase of material economic goods. With scientific management, moral capital can fully play its roles to realize the maintenance of value and the increase of physical capital, including entity capital, financial capital, and equity capital. This is the motive power that drives moral capital to exist and participate in capital management. Second, moral capital realizes its value through its own value progress. On the one hand, such progress mainly lies in the improvement of various expressly stated moral norm systems, and the rationality and feasibility of expressly stated moral regulations and rules. On the other hand, it lies in the constant assimilation between not expressly stated moral spirits, moral beliefs and moral concepts. Third, moral capital realizes its value by facilitating the appreciation of intangible capital. Intangible capital means “capitalized immaterial assets that are controlled by specific subjects that can continuously play their roles in production, management and service, and that can bring economic benefits to their owners in a certain period of time (Lei and Liu 1999).” The social benefits brought by moral capital will improve corporate image, strengthen consumers’ sense of identity of corporate culture and enhance corporate reputation. In a company, especially in the sector of human resources, the realization of moral capital plays the roles of improving employees’ moral quality, promoting the harmonious interpersonal relationship among employees, enhancing the overall cohesion of the company, and strengthening the sense of responsibility of employees. In addition, moral capital can, at the spiritual level, improve the enthusiasm and creativity of technical personnel to accelerate the realization of rational R&D and production, thus promoting the scientific application of patents and franchises.

2.2.2.5 Benefits Generated by Moral Capital are Long Lasting and Durable

Relative to other kinds of capital, moral capital requires a greater length of time to create benefits, but its positive influence will also last longer. In *Moral Capital*, I systematically expounded why it takes a relatively long time for moral capital to create benefits. This time, I will also talk about the long-lasting effects of the benefits of moral capital, which will accordingly affect companies over a longer period time.

First, since the “the formation of moral capital is slow and arduous,” and it needs a “special process” for moral capital to create benefits, it is only natural that moral capital requires an extensive amount of time to create benefits (Wang 2000b). We must note that the formation and improvement of virtues of positive significance, as well as the improvement of people’s moral quality and consciousness are relatively long processes; therefore, compared with the formation of other kinds of capital that of moral capital will take a longer time. Moreover, the value realization of moral capital in various dimensions is a more complex and slower process. Second, moral capital creates long-term benefits. Moral capital penetrates into physical capital and realizes its value by building brands. Once a brand is built, its “sustainable and steady development, advantageous production status, huge economic value and high social reputation (Wang 1997)” will bring long-term economic benefits to the company. It has been discovered that a good corporate image can bring long-lasting and long-term benefits to companies. On the contrary, companies ignoring moral capital tend to be hit by deadly blows. Here is an example. On November 28, 2001, S&P lowered Enron’s rating to B–, and Moody’s lowered its rating to B2, while also indicating the possibility of a further de-rating. In just one day, Enron suffered an 85 % slide (Zhang 2002). It is true that it takes a longer time for moral capital to create benefits relative to other kinds of capital, but its benefits last a longer time. In a company, when the input and management of moral capital are ignored, or the functions of moral capital in economic activities are denied, the company is bound to suffer from a catastrophe.

2.3 The Economic Interpretation of Moral Capital¹²

A few years ago, in *Moral Capital* (Wang 2000b), I originally put forward and expounded the concept of “moral capital.” In the later *The Second Study on Moral Capital*, and *The Third Study on Moral Capital*, I made a further study and analysis of “moral capital.” The topic attracted the attention of the academic circle, and the echoing, questioning and discussion of some scholars brought the study on moral capital to a deeper level. This section will have a deeper exploration of moral capital from the perspective of economics, thus better revealing the rational intension of moral capital.

¹² Originally titled as The Fourth Study on Moral Capital (co-written by Hua Guihong), *Jiangsu Social Sciences*, Issue 6, 2004; reprinted fully in *Ethics*, Copied Newspaper and Periodicals of Renmin University of China, Issue 2, 2003. This paper has been included in *Moral Capital and Business Ethics (Selected Works of Wang Xiaoxi)*, People’s Publishing House, 2009.

2.3.1 *Capital in a Broad Sense and Moral Capital*

“Capital” is a very important word in economics. Unless particularly specified, the general attribute of capital refers to the ability to participate in the production of commodities and services and create social wealth. To be specific, capital is obtained via investment. Every kind of investment is made primarily to improve the economic agent’s ability to create wealth in the future. Investment is considered flows while the result thereof (e.g., capital) is considered stocks. In other words, capital is the embodiment of the ability to create wealth in the future—the ability deriving from the accumulation of investment. Therefore, capital reflects the ability to create wealth, which constitutes the fundamental intension and essential attribute of capital in the modern society.

Then, what is the extension of capital? Based on the intension that “capital is the ability to create social wealth,” the extension of capital, as considered by traditional theory, can be physical capital and monetary capital that is materialized or monetized, or has a kind of immaterialized existence, such as “human capital,” which has been widely accepted.¹³ It can be a tangible ability that is physical, financial, and human in nature, as well as an intangible ability that can create social wealth. That is, aside from widely accepted tangible capital, such as physical, monetary, and human capital, capital also includes intangible capital. Intangible capital mainly includes “knowledge capital,” which acts as the core corporate competitiveness in management; “social capital,” which is a key component of sociology; and “moral capital,” which is the topic to be discussed herein. These kinds of intangible capital have general attributes of capital, for they all exist in general production and can improve the economic agent’s ability to create social wealth.

The concept of “moral capital” is put forward according to the concept of capital in a broad sense which exists based on capital’s general attribute of “creating social wealth as a kind of ability.”

In the history of Western economic thought, the emergence and evolution of the broad concept of capital started from the emergence and evolution of the thought of human capital. Therefore, we can understand moral capital according to the theory of capital in a broad sense based on the concept and theory of human capital.

In fact, before Theodore William Schultz and Gary Stanley Becker, some economists, such as William Petty, Adam Smith, J. H. Von Thunen, Irving Fisher, and Alfred Marshall, had considered man as a kind of capital. However, since human capital was seldom included in the formal and core content of economics, capital at one time only referred to physical capital and monetary (financial) capital. Therefore, in

¹³ Since William Petty, who was called “the father of English political economy” by Marx, the roles played by human power in economic management and development have been a focus of economics. One of Petty’s wisdoms is “labor is the father and active principle of wealth, as lands are the mother.” Petty did not say “labor is the father, as lands are the mother” and used “active.” He meant something. Of course, modern human capital theory was developed by Theodore William Schultz. In the perspective of human capital theory, human capital is a human ability to create wealth, and the ability herein means knowledge, skills, physical conditions, etc.

the history of Western economics, American economists Theodore William Schultz and Gary Stanley Becker founded the formal theory of human capital after World War II and won the Nobel Prize in Economics for their study on human capital. According to Schultz, an objective existence that can “provide economic value of productive services is a kind of capital (Theodore 1990a).” With improved knowledge, skills and comprehensive quality, man can internally improve production capacity, increase productivity, and provide productive services; therefore, it can tentatively be said that human capital exists (and shall be included) in capital in a broad sense.

In China, “capital” has long been understood from the perspective of the relations of production. According to Marxist political economics, capital is the value created by surplus value. It is not materials, but the certain relations of production between capitalists and workers; while the means of production, as the materialization of such relations, thus become capital. Since the content of capital progresses with social progress, it is natural that the relations represented by capital are advantageous in the capitalist society than in the feudal society. However, the “shell” of socialist relations of production will ultimately be broken because it cannot stop the expansion of the revolutionary relations of production that grow internally.

In fact, the concept of capital that we know from the perspective of the relations of production is just a part of the Marxist concept of capital. In *Outlines of the Critique of Political Economy (Drafted 1857–1858)*, an important achievement made by Marx in the 1950s about his re-study of the political economy, he points out, “The saving of labor time is equal to an increase of free time, i.e. time for the full development of the individual, which in turn reacts back upon the productive power of labor as itself the greatest productive power. From the standpoint of the direct production process, it can be regarded as the production of fixed capital, with this fixed capital being man himself.”¹⁴ In section (c) “The production of means of production increases as the increase of labor productivity. The free time in the capitalist society and communist society,” Marx writes, “The direct production process itself here appears only as a moment. The conditions and objectifications of the process are themselves equally moments of it, and its only subjects are the individuals, but individuals in mutual relationships, which they equally reproduce and produce anew. The constant process of their own movement, in which they renew themselves even as they renew the world of wealth they create.”¹⁵

In our opinion, the conclusion that “this fixed capital being man himself” is undoubtedly the further expansion of Marx’s definition of capital. Obviously, Marx landed at this conclusion by taking the abstract of capitalist relations of production and replacing it with the premise of the direct production process. He called “man” who fully plays his roles in the direct production process as “fixed capital.” As a kind of capital, human capital makes the intension and extension of capital in economic development extending to capital in a broad sense with human capital as

¹⁴ *Collected Works of Karl Marx and Friedrich Engels*, Vol. 46 (II), People’s Publishing House, 1980, p. 225.

¹⁵ *Collected Works of Karl Marx and Friedrich Engels*, Vol. 46 (II), People’s Publishing House, 1980, p. 226.

the core. Marshall once said, “Capital is principally composed of knowledge and organizations.... Knowledge is our most powerful engine of production.”¹⁶ From the perspective of the subsequent ability of economic development—the accumulation of capital, Schultz points out, “The concept of human capital has laid a foundation for the accumulation of capital in a broad sense (Theodore 1990a).”

For moral capital, from the standpoint of academic compatibility, we can consider that in the view of capital in a broad sense, labor is an element in the utilization of labor where “labor is the Father and active principle of wealth”; is a kind of ability that “can provide economic value of productive services”; and is an element that constitutes a kind of “fixed capital being man himself.” Furthermore, morality is the “spiritual aspect of human capital and the spiritual intension of physical capital (Wang 2002).” Since “capital is principally composed of knowledge and organizations,” morality, as man’s cognition and understanding of his own improvement, of principles for harmonious interpersonal relationships, and of human behavior norms, is man’s “knowledge” and adaptive capacity regarding himself and the social environment, and of course, an organic component of capital. Therefore, the content as a theoretical system of moral capital shall also exist as an organic component of the “theory of capital accumulation in a broad sense.” In capital theories, the theory of moral capital shall hold a place.

2.3.2 *Moral Resource as an Institutional Resource*

To become capital, a substance, or a kind of existence must have the general attributes of “resources.” Is morality a resource?

As we know, morality is man’s cognition and understanding of his own improvement, of principles for harmonious interpersonal relationships and of human behavior norms, and is the social ethical norms and principles abided by economic agents. Undoubtedly, according to the theoretical frame of new institutional economics, institutions are norms and rules that constrain people’s transaction behavior. Thus, morality is an institution. Different from a “formal constraint” like law, morality is an “informal constraint.”¹⁷ When talking about morality, we must talk

¹⁶ Marshall, *Principles of Economics* (I), Commercial Press, 1981, p. 157.

¹⁷ In new institutional economics, law and morality are considered as “formal constraint” and “informal constraint,” which, in our view, is not proper. According to the logic of new institutional economics, formal constraints are a series of norms and rules (from laws to independent agreements) created by man consciously. Based on the method of exclusion, morality (a kind of ideology) was classified as an informal constraint. This surly means that morality is not a norm created by man consciously to constrain his behavior, which does not agree with the real management and development conditions of social economies. A sound moral system does not form naturally. On the contrary, it needs to be designed, built and maintained, and it even needs a “punishment” system consciously built to push forward the construction of a sound moral system. In real social life, the construction of the social moral constraint system is by no means progressive and unconscious. Moral development is an important part of socialist cultural and ideological development, and denying morality’s character as a formal constraint is, in some sense, denying the importance of morality in social and economic activities. Therefore, we think it is necessary to re-study the

about institutions, for institutions that include law and morality are actually also resources for the development of the social economy.

In general, “resources” in “resource allocation” refers to scarce resources such as land (natural resources), capital (physical capital), and human resources. We believe that institutions, with their special attributes, are very important elements and resources for economic development.¹⁸ Resources can be divided into two categories: resources existing independently, such as land, capital, and human resources; and resources existing dependently, like technology, organizations, morality, and institutions.

Then, under which category do institutions fall?

First, all resources are considered as input. In any social production process, institutions or rules are a kind of important “input.” Without certain orderly rules, production can only be Robinson’s production, and the sociality of the production process (including the sociality of family production and operation) certainly requires the participation of orderly rules adapting to such production process, regardless of whether the rules are formal regulatory restrictions (laws and regulations) or informal social conventions (morals and customs).

Second, all resources are used at costs. Therefore, in different production processes and transactions, institutions and rules are introduced and developed with different costs. As Douglass C. North states, “resources are consumed to define and protect property rights and fulfill contracts (Douglass 1994).” The development of institutions provides primitive institutional resources for the production process, while the introduction of new institutions marks the change and innovation of institutions. No matter what, development or introduction of institutions, the process is accompanied by the consumption of noninstitutional resources. More specifically, when the microcosmic economic agent develops or changes its institutions, a certain amount of direct costs will arise, while the change of macroscopic social institutions actually means the benefit adjustment and restructuring among socio-economic agents, which, in most cases, will generate a certain amount of social costs. Therefore, generally speaking, institutions are scarce resources obtained at costs, and the allocation and application thereof are also realized at costs.

Third, the most important thing is that different ways of allocation of different resources lead to different economic performances, and the differences between different institutional resources will affect economic performance.

At the microlevel, the core of transaction cost theory in new Western institutional economics is analyzing how institutions and institutional changes determine and affect the transaction cost level in the world of nonzero transaction costs. Indeed, institutions significantly affect the transaction cost level and thus affect economic

classification of “formal constraints” and “informal constraints.” In this book, the issue is not discussed profoundly. As for the theoretical research on “formal constraints” and “informal constraints,” please see Douglass C. North, *Institutions, Institutional Change and Economic Performance*, Shanghai Sanlian Bookstore, 1994.

¹⁸ For the analysis on the special attributes of institutional resources, please see Effective Supply and Economic Development, Nanjing Normal University Press, Chapter V “Innovation and Economic Progress,” 2000, pp. 183–191.

efficiency. The well-known Coase theorem explains the close relation between the efficiency of resource allocation and (property right) institutions. Institutions affect transaction costs by increasing or decreasing the value of main parameters, such as uncertainties, externalities and opportunistic behavior. It is worth noting that institutions can also affect transaction costs by changing the means of the transaction. Generally, it is believed that companies are the substitutions of the price mechanism. The establishment of companies greatly reduces transaction costs, thus improving the efficiency of resource allocation. However, the establishment of companies will not necessarily lead to an improvement in efficiency, for alike companies with the same noninstitutional resources are different in efficiency, and the separation and revocation of companies will sometimes lead to the improvement of efficiency. In fact, the establishment and change of companies are, essentially, about turning external market transactions into internal corporate transactions. The rationality of internal transaction institutions and rules determines the transaction cost level, and it also affects the rationality of corporate organizations, causing the X-efficiency or X-inefficiency of resource allocation.¹⁹ In *Moral Capital*, I analyzed the X-efficiency or X-inefficiency of resource allocation from the perspective of “the value realization of moral capital.” From the aspects of “human moral quality and productivity,” “management morality and corporate vitality,” “moral content and product quality,” and “credit and market share,” I expound how morality affects the efficiency of resource allocation in details (Wang 2000b).

At the macro-level, different institutional frameworks will greatly affect economic development. One of the very famous points of North is that “the development of an efficient economic organization in Western Europe accounts for the rise of the West.” “An efficient organization entails the establishment of institutional arrangements and property rights that create an incentive to channel individual economic effort into activities that bring the private rate of return close to the social rate of return (Douglass and Robert 1998).” The effects of institutions and rules on economic development and efficiency have a more solid foundation and a more powerful precondition than organizations. The purpose of North’s statement is to refute the opinion that “technical innovation is the primary reason for the economic development of the West,” which was held by many economic historians. Of course, we cannot agree with the opinion of North completely, even though his opinion has greatly enlightened us. He made the mistake of “hypercorrection”: for the economic development of a country, institutional resources are as important as other available resources. Without sound institutions and orderly rules, regardless of the abundance and massive input of other resources, the production possibility frontier of the country cannot be sustainably expanded, and its overall efficiency of resource allocation can hardly be increased. The lack of institutions will seriously constrain economic development. On the contrary, the change and innovation of institutions will greatly

¹⁹ In *Institutions, Institutional Change and Economic Performance*, Douglass C. North points out that the effect of institutions on economic performance is much complex than its mere or main effect on the constitution of transaction cost level. In fact, the interaction among skills, institutions, organizations, transformation costs and transaction costs is mutual and crossed.

regulate the utilization of other resources, thus becoming an important source of economic development.

From the above analysis of the resource attribute of institutions, we can see that morality, as a part of institutions, is also a resource.

Since the production of a certain non-Robinson's social economy can only take place with the regulation of particular norms and rules, a certain moral system is necessary. What's more, it takes a certain amount of time for moral rules to form and adapt to the development of a certain economy. We can consider the change of morality as the most formidable "slow variable" in social change. Besides, the formation of moral rules is not a thing in itself, which forms without any input. On the contrary, the formation and operation of the moral system, the improvement of moral quality, as well as social and cultural progress all need to be realized. In other words, the moral system is constructed at the cost of a lot of resources. Once the moral system is built, it will start to play its unique roles at the micro and macro-levels. A sound moral system shall first act as an effective social constraint and a very effective "incentive mechanism," which will constrain "opportunistic" motivation and behavior, and control "moral hazards" to reduce the efficiency loss of socioeconomic resource allocation caused by "opportunistic behavior. On the contrary, without an effective moral system, "opportunistic" motivation and behavior will run rampant and out of our control. There is no need for us to accurately estimate the loss of social resource allocation caused by the lack of morality and credit during the socioeconomic transformation period—the loss is tremendous. From the macroscopic perspective, the economic downturns occurring over the past 20 years are more or less related to people ignoring the functions of morality, consciously or unconsciously. From the microscopic perspective, in most cases, the falling of companies in competitions is related to the lack of morality and credit.

In the socioeconomic system or institutional arrangement system, law and morality work together. Therefore, when talking about institutional resources, it is necessary to pay attention to the relations and differences between the roles (including processes and results) played by law and morality. In short, in the field of the economic analysis of law (or law and economics), a lot of research concerning the effects of law on socioeconomic development and the efficiency of the legal system has been made. The research results show that law, by protecting property rights, preventing intimidation, resolving differences, and reducing the loss caused by non-cooperation, lowers transaction costs and thus improves the efficiency of resource allocation and pushes forward economic development. It is worth noting that compared with law, morality shall be considered as a more important and economical (economically efficient) resource. During the process of transaction, in addition to abiding by the law, it is more important to build a good reputation to obtain more market value resources. It can be said that credit and integrity play a more important role than law in realizing the prosperity of a company. In a society beset by a general lack of credit and integrity, the phenomenon of "law fails where violators are legion" may happen. Regarding this, Mao Yushi once said, "A covenant must be made on a credible and reliable basis. Legal protection without the precondition of credit can hardly, and even cannot guarantee the fulfillment of the covenant

(Mao 2003).” In fact, even in the eyes of economic analysis researchers, law is a “luxury.” In the regulation of socioeconomic rules, the formulation and application of laws are very costly. Let alone the cost of legislation, for the application of laws, as said by Robert B. Cooter and Thomas Ulen, “no one knows how much social wealth has been spent to solve social disputes (Mao 2003).”

Relative to law, morality (as non-mandatory, introspective, positively incentive social norms and rules) is a more precious and economical resource for social development. As physical, monetary, and human resources that can become capital resources, moral capital is also a social resource—moral capital resource, which plays an essential role in greatly improving the economic efficiency in the entire process of reproduction and the transaction of a social economy with orderly and efficient development.

2.3.3 The Economic Logic that Moral Source can Become Moral Capital

Why can moral resource be called “moral capital”? To answer this question, an economically logical and reasonable explanation is needed.

We have demonstrated repeatedly that during the process of creating wealth, namely, the entire process of reproduction (including production, exchange, distribution, and consumption), morality plays its unique roles everywhere. The economy is filled with “morals” characterized by “dependence,” “independence,” “penetration,” and “guidance (Wang 2002).” Furthermore, demonstrating that “the economy is filled with morals” is not enough to prove the existence and functions of moral capital; we still need to empirically analyze the roles played by morality in socioeconomic development. That is, we need to focus on demonstrating the indispensability of moral capital in socioeconomic development and expounding the unique roles played by moral capital in promoting social production and social wealth creation.

First, unrestrained reproduction and transaction processes are accompanied by extremely high costs.

In the process of reproduction, interpersonal relationship is maintained at the cost of certain resource consumption. In new institutional economics, such a cost is called “transaction cost.” In this case, “transaction,” in a broad sense, means interpersonal interaction. In economics, the intension of “transaction” is much more profound than that of “exchange.” In some sense, the transaction process is the reproduction process in a broad sense. The reason is that their essences are both interpersonal interactions and relationships, which occur during the process of creating wealth. Generally, transaction costs include three parts: the costs of collecting information, of negotiation and signing contracts, and of fulfilling contracts. If transactions are conducted under the condition of limited information and rationality, not to mention the costs of information collection, unrestrained transaction progress will be out of order, and the transaction process and results will be uncertain. The

most typical results, as profoundly revealed by information economics, are “adverse selection” and “moral hazards.” Given the above, it is necessary to introduce constraint and incentive mechanisms. Moral constraint and motivation are indispensable in economic activities.

Second, morality is a constrain mechanism that can effectively reduce opportunistic behavior.

In a transaction production, the motivation and future behavior of every party involved are uncertain to some extent. Therefore, a major source where transaction costs arise from is the moral hazard behavior that damages the interest of the parties involved. It is true that in real economic life, man’s nature is self-interest. In this case, without effective moral constraints, opportunistic behavior that attempts to be “free riding” will prevail, obstructing the progress of transactions due to extremely high transaction costs.

In general, morality takes on productivity during the process of reducing the consumption of physical resources or transaction costs that arise from interpersonal interactions. Morality and law, as institutional resources, work together to constrain the parties involved in a transaction. Undoubtedly, with effective constraints during the transaction process, transaction costs will drop significantly, which reflects the key role played by morality.

Third, the altruism of morality constructs the self-discipline mechanism and incentive mechanism of parties involved in the transaction.

It can be said that morality, as other economic resources, penetrates into the entire process of economic development. By constructing an effective self-discipline mechanism for the parties involved in a transaction, it reduces the transaction costs, improves the efficiency of resource allocation, and accelerates wealth creation. From the process, it obtains the ability to create social wealth like other capital resources, thus obtaining the general attributes of capital.

Morality effectively constrains parties involved in the transaction, which makes it a kind of capital. Under the constraint of moral norms and rules, parties concerned transact in accordance with agreed transaction rules. Essentially, morality is embodied as “responsibility”; therefore, when moral rules, followed by parties concerned (economic men), participate in the transaction with self-interest purposes, the self-interest purposes and altruistic behaviors are unified. In this way, the interests of the parties involved are satisfied. In fact, in an orderly market economy, under the constraint of moral rules, one party can only realize its own goals by first meeting the needs of the other party. Confucius once said, “What you do not wish for yourself, do not do to others.” Similarly, what you do wish for yourself, do to others first. Only when producers provide buyers with commodities or services that meet buyers’ effective needs (the behavior is essentially altruistic) are they able to realize the value of their commodities and services, and thus realize their own subjective benefits.

Furthermore, we can say in an orderly market economy, altruistic (responsible) behavior leads to more altruistic results. Behind altruistic (responsible) behavior are moral norms and rules, moral constraints and incentives, and the unique roles that are effectively played by moral capital. In short, morality, with its constraints and

incentive functions, prevents the “moral hazard” in the transaction process, reduces the uncertainties caused by human factors and lowers transaction costs. In this way, on the one hand, it improves the efficiency of resource allocation and accelerates the creation of social creation, and, on the other hand, obtains the general attributes of capital, thus becoming a precious institutional resource. Ultimately, it becomes moral capital—a kind of capital in a broad sense.

2.4 The Concept and Functions of Moral Capital in History and the Contemporary World²⁰

“Moral capital” is a new and controversial concept.²¹ The focus of controversy is that “moral capital” can be a judgment—“morality is a kind of capital,” and the judgment implies two basic concepts, namely, “morality as a kind of capital” and “capital in the form of morality,” which seem to deviate from people’s traditional understanding of “morality” and “capital.” However, I believe that the concept of “moral capital” is a new intension of “morality” and “capital” in the context of the contemporary world. This section aims at discussing the formation of the concept of “moral capital” and its contemporary significance, thus profoundly illustrating the special roles played by morality as an instrument in economic development.

2.4.1 From “Morality as an End” to “Morality as an Instrument”

The primary difference between “morality as a kind of capital” and “morality in the general sense” lies in the understanding of their functions. Generally speaking, morality²² has two functions: first, it functions as an end—morality, through defining the significance and ends of the existence of man and society, delegates responsibility to the moral subject based on what should be done and provides moral constraints in the form of rules; and second, the function as an instrument—on the basis

²⁰ Originally titled as The Fifth Study on Moral Capital (co-written by Li Zhixiang), *Jiangsu Social Sciences*, Issue 5, 2006; reprinted fully in *Ethics*, Issue 10, 2006. This paper has been included in *Moral Capital and Business Ethics (Selected Works of Wang Xiaoxi)*, People’s Publishing House, 2009.

²¹ See the series of papers of Wang Xiaoxi for the research on “moral capital,” including, *Moral Capital*, *Jiangsu Social Sciences*, Issue 3, 2000; *The Second Study on Moral Capital*, *Jiangsu Social Sciences*, Issue 1, 2002; *The Third Study on Moral Capital*, *Jiangsu Social Sciences*, Issue 6, 2002; *The Fourth Study on Moral Capital*, *Jiangsu Social Sciences*, Issue 6, 2004; and Wang Xiaoxi et al., *Moral Capital Theory*, People’s Publishing House, 2005. For the controversy over “moral capital,” please see *The Capitalist Characteristics of Morality* (Zheng Gencheng, Luo Ji-ancheng, et al., *Journey of Zhuzhou Institute of Technology*, Issue 5, 2002).

²² In this case, morality means morality complying with the law of historical development in a certain historical period. Presently, it refers to morality in a scientific sense.

that the moral subject is responsible for what he should do, morality provides moral support to promote the existence and development of other things, thus presenting the reasons and value for its own existence.²³ In fact, in the economic sphere, capital has existed as an instrument to create profits. People do not accumulate capital for more capital, but for making profits. “Morality as a kind of capital” is used as an instrument to create profits; therefore, from “morality in the general sense” to “morality as a kind of capital,” the main change is that morality’s function as an instrument to create profits is highlighted.

It seems that taking morality as an instrument to create profits has deviated from people’s traditional understanding on the functions of morality, for some hold that morality should be considered as an end rather than an instrument. However, the development of moral research has proved that acknowledging and highlighting morality’s function, as an instrument in economic development, is one of the general trends of moral research and one of the basic requirements for the development of a modern society.

Traditionally, it is held that morality’s function as an end is vastly superior to its function as an instrument and plays the decisive role. This can be understood from the following three aspects:

First, traditional moral research focused on the ultimate end and significance of an individual or a group of people, which establishes the dominance of morality as an end in society. Traditional ideologists mainly tried to answer the questions of what moral people are, what a moral life is, and what a moral society is. These questions share a single common core, that is, the ultimate end of man to exist and live. The answer given by Aristotle is “the highest good (Aristotle 1992).” In his opinion, all actions and choices are made to achieve good ends. Ends fall into different levels, so does good. Standing at the top of good, which is expected by people themselves, is the “highest good”—the ultimate end that ultimately constrains all other social behavior. Therefore, morality, taking “the highest good” as its primary content, is bound to play its role mainly as an end. In ancient Greece and Rome, and the Middle Ages, most ideologists followed the ethical ideology of Aristotle: a moral goal at the highest position is put forward at first, and then actions and choices are made in various aspects of society to realize a goal. Chinese Confucians thought in the same way: they stressed the importance of morality in every aspect of social life, believing that “morality is superior to interests” and “morality regulates the behavior of making interests.”

Second, from the relationship between ethics and other social disciplines, it can be seen that the former stands high above the latter. Such a relationship indicates that the primary function of morality is defining the ultimate end of man to exist, and that of other disciplines is studying and providing various necessary means to realize the ultimate end. Aristotle held that politics, taking the highest good as its subject, “is the most sovereign and most authoritative science” that is “served by other sciences.” Sciences, including tactics, money management, and oratory, all

²³ For the “dual functions of morality,” please see Li Zhixiang, On the Dual Dimensions of the Research on Economic Ethics, *Studies on Ethics*, Issue 1, 2006.

belong to politics (Aristotle 1992). Ethics dominated over disciplines for a very long time; the late philosopher Epicurus even claimed that natural science should be the subordinate to ethics. He defined “good” as happiness, and wrote, “If we were not troubled by our suspicions of the phenomena of the sky and about death, and also by our failure to grasp the limits of pain and desires, we should have no need for natural science.”²⁴ Adam Smith, who built his reputation based on *The Wealth of Nations*, actually studied economics under the title of “Professor of Moral Philosophy.” It tells us that even in Britain in the eighteenth century, economics was still a branch of ethics. According to traditional Confucianism, the moral development of individuals was considered as the basis for the development of a country. This indicates that the study of ethics and morals was considered as the basic discipline of ethics, and other disciplines were used as instruments to promote moral development from the individual level to the family level and the societal level.

Third, morality as an instrument is closely related to morality as an end, that is, morality as an instrument is used to realize the moral ends rather than any ends. In traditional moral research, morality was also considered as an instrument. It is just that it was used to realize its own ends, instead of any other social ends. While defining “brave,” Plato pointed out, “The brave man preserves [conservation] both in pain and pleasures and in desires and fears and does not expel it from his soul (Plato 1994).” Here, the “conservation in desires and fears” is a moral end, and “being brave” is a moral instrument that submits to and helps achieve the end. The thought of Plato coincides with Chinese Confucian thought. According to Confucius, “a brave man is a moral man at first.”²⁵ In this case, bravery submits to morality and helps develop morality as an instrument.

In the modern society, social sciences are independent from general ethics. Claiming that “value” should be distinguished from “fact,” social sciences keep value out of their fields to set their independent ends of development, thus eliminating the constraints of morality. In this case, the dominance of morality as an end is broken, and morality as an instrument gradually breaks free from the moral ends. That is, aside from serving the moral ends, morality as an instrument also services other independent disciplines.

In the field of politics, controversial Italian politician Machiavelli is the first one to put morality’s function as an instrument ahead of its function as an end. In *The Prince*, he wrote that a successful prince must “be a fox to discover the snares and a lion to terrify the wolves (Machiavelli 1996).” In the sense of morality, a successful prince is neutral, that is, he could be good to bring happiness to his people or be evil to bring disasters to his people. Therefore, the quality of a successful prince is not constrained by morality, but is only a moral instrument. We can understand it like this: we advocate bravery (a lion to terrify the wolves) and wisdom (a fox to discover the snares) just because they are helpful in realizing a political end rather than a moral end. Therefore, the impact of Machiavellianism is that it completely

²⁴ [Greece] Epicurus and Lucretius, *Epicureanism: Doctrine of Epicurus*, translated by Bao Limin, China Social Sciences Publishing House, 2004, p. 39.

²⁵ *The Analects of Confucius: The Practice of Government*.

separates politics from ethics, “focusing on the measures taken to achieve ends no matter whether the ends are good or evil (Russell 2003).” Thus, a new approach was developed that combines ethics and politics—“political ethics,” which differs from “ethical politics.” “Ethical politics” pursues “politics following the nature of ethics,” while “political ethics” pursues “ethics that meet the requirements of politics.”

The Dutch philosopher Mandeville was another controversial figure for his thoughts about morality. In *The Fable of the Bees: or, Private Vices, Public Benefits*, he reveals, “So Vice is beneficial found, When it’s by justice bound; Nay, where the people would be great, As necessary to the state, As hunger is to make ’em eat. Bare Virtue can’t make Nations live, In splendor; they, that -would revive, A Golden Age, must be as free, For acorns, as for Honesty (Bernard 2002).” He was criticized because he, superficially, defended the rationality of vices, which may make vices more rampant. However, Mandeville later left researchers with the following question: what kind of morality do we need to create a materially prosperous society? Obviously, “virtue” in this case refers to a means to realize material prosperity.

Later, the thoughts of Machiavelli and Mandeville were developed into one of the dominant thoughts of empirical sociologists, namely, the principle of “value neutrality.” This principle requires researchers to put value evaluation and moral emotions aside when analyzing a social phenomenon, namely, using empirical analysis to find out the ends caused by different means, regardless of whether the ends are moral or not. Max Weber said, “An empirical science cannot tell anyone what he *should* do—but rather what he can do—and under certain circumstances—what he *wishes* to do (Weber 2000).” Empirical sociologists try to expel moral evaluation, including the ultimate moral end, from empirical disciplines to ensure that the research of social sciences is scientific.

Influenced by the above ideological trend, economists also try to separate morality from economics, thus setting its own economic ends. Marshall expressed the opinion clearly. In *Principle of Economics*, he wrote, “But, for all that, the steadiest motive to ordinary business work is the desire for the pay which is the material reward of work. The pay may be on its way to be spent selfishly or unselfishly, for noble or base ends; and here the variety of human nature comes into play. But the motive is supplied by a definite amount of money: and it is this definite and exact money measurement of the steadiest motives in business life, which has enabled economics far to outrun every other branch of the study of man (Marshall 1994).” That is to say, the moral ends of spending the pay is not included in the study of economics, and only the obtainment of the pay, unrelated to morality, is the issue studied by economics. John Maynard Keynes and Lionel Robbins were the representatives supporting the opinion of Marshall. Keynes stated, “The function of political economy is to investigate facts and discover truths about them, not to prescribe rules of life. Economics laws are theorems of fact, not practical precepts. Political economy is, in other words, a science, not an art or a department of ethical enquiry. It is described as standing neutral between competing social schemes. It furnishes information as to the probable consequences of given lines of action, but does not itself pass moral judgment, or pronounce what ought or what ought not to be (Keynes 2001).” Robbins also pointed out, “Unfortunately, it does not seem

logically possible to associate the two studies in any form but mere juxtaposition. Economics deals with ascertainable facts; and ethics with valuations and obligations (Lionel 2000).” Amartya Sen, winner of the Nobel Prize in Economics, made the following conclusion regarding this situation: “It can be said that with the development of modern economics, the importance of the methods of ethics has been seriously played down (Sen 2001).” In fact, separating morality from economics, which seems like disciplinary “purification,” is actually the regression in the development of economics.

In economics, the principle of “value neutrality” actually only clears away morality as an end, but still keeps morality as an instrument. Economists disconnect morality as an end and morality as an instrument, making the latter serve the former. They do not care about the moral ends in the economic life, but rather have much concern for moral instruments, that is, they only care what morals are beneficial for economic development. Economists do not study why a quality or behavior is moral; they only study what morals should be advocated for the good of economic development. Adam Smith once studied the significance of moral instruments for economic development. He analyzed the virtue of “frugality” from the economic perspective of “what desires are beneficial for economic development,” instead of from the ethical perspective of “what desires are necessary and reasonable.” He clearly points out, “Frugality increases capital; while extravagance and recklessness diminish capital (Adam 1994).” Keynes later applied the same method when he reversed the early definition of “extravagance.” The difference is that he used the theory of “effective demand” instead of “capital accumulation” as the instrument.

In intellectual history, Max Weber was a representative advocating morality as an instrument. In religious sociology, Weber mainly analyzed how morals deriving from religions affect the development of capitalism. In fact, it is a review of the roles played by religious morals in the development of capitalism. Weber found that different religions played different roles in the rising of capitalism. Some promoted the development of capitalism, while some were counterproductive. The reason is that some religions agreed with capitalism in ethical spirits, but some failed. The conclusion made by Weber is that Protestant ethics can promote the development of capitalism, for the “duties,” such as abstinence and progressiveness, which are advocated by Protestant ethics, just constitute the spiritual cores of capitalists and salaried workers. He stated, “The ability of mental concentration, as well as the absolutely essential feeling of obligation to one’s job, are here most often combined with a strict economy which calculates the possibility of high earnings, and a cool self-control and frugality which enormously increase performance. This provides the most favorable foundation for the conception of labor as an end in itself, as a calling which is necessary to capitalism: the chances of overcoming traditionalism are greatest on account of the religious upbringing (Weber 1992).”

Weber’s Protestant ethics developed a brand new perspective: first, an amoral end is set, and then various moral elements, which are helpful in realizing this end, are found. In the theories of modern economics, institutional economics follows this view. After R.H. Coase conducted a study on corporate origination cost, institutional economists found that institutions are an important element pushing for-

ward social and economic development. Douglass C. North pointed out, “The structures of political and economic organizations determine economic performance and the growth of knowledge and technology. The various forms of cooperation and competition in human development and their implementation, as well as the institutions organizing human activities are the very center of the economic history (Douglass 2005).” Then, what are “institutions”? In short, institutions are “the rules of interpersonal interaction.” Undoubtedly, moral rules are the most basic among all rules of interpersonal interaction. Institutional economists analyze morality in the following way: they find the morals that can minimize the rational organization costs, thus promoting economic and social development. In *Trust: The Social Virtues and the Creation of Prosperity*, Francis Fukuyama identifies, “... a nation’s well-being, as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in society,” which clearly shows the importance of trust as an institutional moral in social development.

The emergence of institutional economics provides a brand new method for ethical research to analyze morality. That is, considering morality as a necessary and effective means for economic development and highlighting morality’s function as an instrument. The concept of “morality as a kind of capital” just came into being based on this method. In fact, morality’s functions, as an end and as an instrument, cannot be completely separated, and they are not naturally mutually exclusive. Morality cannot exist without the ends, responsibility and constraints from its function as an end; on the contrary, morality cannot realize its practical value without the practical significance provided by its function as an instrument.

2.4.2 From “Physical Capital” to “Moral Capital”

Literally, the difference between “capital” and “moral morality” is that the former refers to capital in a general sense, covering capital in different forms; while the latter refers to capital in a special sense, covering only capital in the form of morality. Therefore, the significance of the concept of “moral capital” is narrowing the extension of capital to further specify its concept. However, from the development of the concept of “moral capital,” we can see that it has a greatly profound significance: initially, “capital” did not refer to capital in a general sense, but capital in a special sense—capital in the form of materials. Therefore, when nonmaterial morality is included in capital by the concept of “moral capital,” the extension of “capital” is not narrowed but expanded.

Since the emergence of classical political economics, “capital” has been a very important economic concept. Classical political economists, when analyzing the elements of economic activities, adopted the “trichotomy”—capital, labor, and land. Capital is provided by capitalists, and the income arising from such capital is profits; labor is provided by workers, and the income arising from such labor is wage; land is provided by landlords, and the income arising from such land is rent. However, with the development of modernization and industrialization, capital continu-

ously flew into land, and capitalists constantly defeated landlords. As a result, the importance of land kept decreasing, and land as an element was merged into capital, thus “binary opposition” put forward by Marx formed in economic activities: the opposition between capital and labor, between capitalists and workers, and between profits and wage. In the eyes of later researchers, “capital,” in the economic system, has at least the following three characteristics:

First, capital must be capable enough to support the entire process of profit creation, thus making the process manifest as the total capital of the process where capital realizes its appreciation. Although later researchers admit that capital is “resources invested in the market in the expectation of return (Lin 2005),” classical political economists and Marx all held that capital can create profits. What’s more, it must create its own profits, and in the process of which, it must realize self-appreciation. Capital realizes self-appreciation by the following means. First, it acts as the elements of production, including the means of labor in the form of constant capital and the means of livelihood (labor) in the form of variable capital. Then, the elements interact with each other—labor, which is controlled by the means of livelihood, processes the subject of labor using the instruments of labor, thus producing profits-contained commodities. Superficially, profits are the outcome of the combination of various elements of production, but in actuality, the process of profit creation is just a “solo dance” of capital. Marx once clearly stated, “If now we take in turn each of the two different forms which self-expanding value successively assumes in the course of its life, we then arrive at these two propositions: Capital is money: Capital is commodities. In truth, however, value is here the active factor in a process, in which, while constantly assuming the form in turn of money and commodities, it at the same time changes in magnitude, differentiates itself by throwing off surplus value from itself; the original value, in other words, expands spontaneously. For the movement, in the course of which it adds surplus value, is its own movement, its expansion, therefore, is automatic expansion (Marx 2001).” Therefore, “capital,” in the view of classical political economists and Marx, expands its value spontaneously and is the total of “constant capital” and “variable capital.” The difference is classical political economists thought that the “spontaneous expansion of value” creates profits, while Marx thought it creates surplus value. The totality of capital determines that only things, which can independently create profits, can be called capital, and every necessary element for profit creation cannot be independently called capital. Specifically, profits cannot be created without the means of production, land, and labor, which are all not considered independent capital as none of them can create profits independently.

Second, capital manifests abstractly as money and concretely as various materials (elements of production). Abstract capital manifests as a certain amount of money at the start and end of a period, but in the entire process of profit creation, it must be embodied as various elements needed for profit creation. That is, it shall act as a certain amount of means of production (including the subject of labor and instrument of labor) and means of livelihood (including the necessities of life of workers), and then act as a certain amount of commodities. In this case, money, the means of production, and the means of livelihood, are all profits-contained final

commodities, which symbolize and manifest as certain tangible materials. Hence, the “capital” understood by classical political economists and Marx is called “physical capital” by later researchers. It should be pointed out that intangible things, such as institutions, law, and culture, might be excluded from the scope of “physical capital.” The concept of “physical capital” is closely related to that of “total capital.” Their combination makes the process of profit creation a process in which tangible material wealth realizes its value expansion. Of course, Marx once pointed out that the essence of all economic goods is the interpersonal economic relationship. Put another way, an economic relationship must be embodied through tangible materials. Therefore, Marx’s “physical capital” has profound intension.

Third, physical capital is of objective independence, which separates itself from its owners. Physical capital exists as “materials” independently of “man.” Although all physical capital is owned, it can be independent from its owners. For the owners of physical capital, acquiring, occupying, and transferring physical capital only means the increase or decrease of external material wealth, and they themselves remain the same. Although Marx once stressed that “capitalists are the personalization of capital,” the process of profit creation shows clearly that when physical capital constantly changes its forms during the expansion of its value, capitalists who see such expansion remain unchanged. The relative independence of physical capital indicates that only things existing independently of man can be capital; and those existing within man and cannot be separated from man are excluded from the scope of “capital.”

Later researchers criticized the “capital” understood by classical political economists and Marx. They called it “traditional capital” or “physical capital.” Human resource theorists raised an objection early. They thought if capital is mainly physical capital in the form of natural resources, and if capital is the major force pushing forward social and economic development, then, it is certain that the country with the most abundant natural resources will have the fastest economic development and create the most profits. However, the fact is some countries deficient in natural resources are economically developed, while many countries abundant in natural resources are still developing. Human resource theorists thus made the conclusion that the most important factor determining the economic growth of a country is not natural resources, machines or science, but population quality. As Schultz said, “The decisive factors of production in improving the welfare of poor people are *not* space, energy, and cropland; the decisive factor is the improvement in population quality (Theodore 1990b).” That is, compared with physical capital, human capital is more important.

Human capital theorists try to change people’s traditional understanding of capital. They prefer to use marginal analysis method to understand capital. They list the various elements needed for profit creation, and then analyze the marginal investment and marginal income of each element. They believe that only when the marginal investment of an element of production can create profits, the element can be considered as a kind of capital. Schultz said, “I believe, the approach of investment needs to be determined to promote economic development. According to the approach, the amount of capital is increased by investment, and income is in-

creased by adding the productive service of capital, which are the keys of economic growth....Thus, the accounting of all additional investments gives a complete and consistent explanation of the marginal changes in the stock of capital, of the marginal changes in the productive services from capital, of the marginal changes in income and the consequent income increase (Theodore 1990c)."

From the same perspective of capital, human resource theorists put forward the proposition that population quality is also a kind of capital, for the investment in population quality can also bring a certain amount of profits. The investment in health, children's education, adult education, and skill training can all create profits exceeding the cost. Schultz said, "My approach to population quality is to treat quality as a scarce resource, which implies that it has economic value and that its acquisition entails a cost. In analyzing human behavior that determines the type and amount of quality that is acquired over time, the key to the analysis is the relation between the returns from additional quality and the costs of acquiring it. When the returns exceed costs, the stock of population quality will be enhanced (Theodore 1990b)."

It should be noted that the concept of "investment in human capital" can actually be found in the thoughts of Marx. Variable capital, which creates surplus value, manifests as labor (human resource). Moreover, the concepts of "subject productivity," and "spiritual productivity," which were put forward by Marx, essentially focus on the roles played by man in the production process. Furthermore, the conclusion of "science and technology are part of the productive forces" made by Marx also contains the thought of human capital investment.

In the theory of human capital, population quality is considered as a kind of capital. Conceptually, human capital tries to change traditional capital from the following three aspects:

First, the concept of human capital tries to break free from the constraint of total capital, considering the necessary elements in the process of profit creation as capital. Physical capital can create profits and be embodied in elements of production, but human capital, as an element of production, cannot create profits. Although physical capital manifests as a certain amount of money abstractly, in the process of profit creation, as elements of production, it transfers materials into profits. The entire process of capital expansion is actually the transformation of capital in form. However, human capital that participates in the entire process of profit creation is only embodied in labor; and many elements of production, including the means of production, are not the physical embodiment of human capital. Therefore, the process of profit creation cannot reflect the value expansion of human capital. The reason why population capital is considered as a kind of capital is that in the condition that other elements of production remain relatively unchanged, the investment in population quality can create profits higher than the cost. Therefore, the concept of human capital opens the doors for analyzing the capitalization of various elements of production: every element in the process of profit creation may be considered as an independent object of investment, as long as the cost is lower than the profits.

Second, the concept of human capital tries to break the definition that capital is in the form of tangible materials, while incorporating intangible things. Physical

capital, coming from natural resources, exists in the form of tangible materials, and human capital contains a lot of intangible elements. In the theory of human capital, population quality mainly includes the physical and psychological conditions, education level as well as knowledge and skills of man, among which, except the physical condition of man which has some characteristics of physical capital, the rest are totally intangible and conceptual. However, when they are considered by the theory of human capital to be profitable, they actually have broken free from the constraint of capital in form. That is, anything, no matter tangible or intangible, can be called capital as long as it creates profits.

Third, the concept of human capital tries to break the notion that capital is independent from man, considering things internalized as the elements of man as capital. Physical capital, independent from man, can be owned by anyone and can be transferred freely in legal ways, whereas, human capital, which is completely internalized as a part of its owners, cannot be separated from its owners. Due to this reason, human capital owners must participate in the process where human capital forms to improve their population quality. What is more, after the population capital of labor is formed, it cannot be freely transferred to another.

Human capital management theory, which is developed based on the theory of human capital, further expands the concept of human capital from the perspective of corporate management. It includes things contributing to improving the productivity of employees, such as talent recruitment, employee motivation, and skill training, in the scope of human capital. According to human capital management theory, any measure that can improve the productivity of employees can be considered as investment in human capital, which greatly develops the concept of human capital.

After the concept of capital was expanded by human capital, the theory of “cultural capital” emerged. Cultural capital theorists represented by Bourdieu found that culture is also a kind of capital. They pointed out that when individuals accept the value of the ruling class through schooling or other routes, they could create more wealth than uneducated ones in the market.²⁶ Bourdieu stated, “The special symbolic logic, which forms the distinction, provides people possessing a lot of cultural capital with an asylum to protect their physical and symbolic profits in addition: any specific cultural ability (for example, the ability to read in the world of illiteracy), because of its scarcity, can obtain its value according to its position in the distribution of cultural capital, and thus create obvious profits to its owners.” The concept of “cultural capital” advocated by Bourdieu is very ideological: he believed that the profits created by cultural capital are actually the rewards from the ruling class on the ideological ground, for the purpose of spreading its cultural concepts to society. Later researchers threw out Bourdieu’s view. Through the cost–benefit method, they found that the profits created by cultural capital are higher than the cost, and

²⁶ Translated by Bao Yaming (1997, p. 196, 192–201), *Cultural Capital and Social Alchemy: An Interview with Bourdieu*, translated by Bao Yaming, People’s Publishing House, 1997, pp. 196, 192–201. In the view of Bourdieu, cultural capital exists in three forms, namely, in the form of personal culture concretely, in the form of cultural products objectively, and in the form of cultural institutions systematically.

thus made the conclusion that culture is a kind of capital. A cultural capital theorist once said, “In some sense, a cultural institution, which, like a certain language or the gendered division of labor, can create future profits for a society, and at the same time, create and maintain the high costs needed to be paid by it, which can be considered as a form of capital.”²⁷

“Cultural capital” and “human capital” are alike in many aspects, such as content. To some extent, they share the same content. According to Bourdieu, cultural capital has three forms.²⁸ The first form (embodied form) is thought as the content of human capital by later researchers. Moreover, in the development of the theory of human capital, cultural capital is included. In terms of form, they all emphasize conceptual and intangible things.

However, “cultural capital” and “human capital” differ from more aspects. The concept of “human capital” focuses on man, which is the carrier of capital—things related to man and productivity can be included in human capital; while the concept of “cultural capital” focuses on culture, which is considered as the content of capital—things taking culture as content and can help improve income (such as embodied personal cultural concepts, objectified cultural and art works, and institutionalized social cultural institutions) can be included in cultural capital. Moreover, human capital internalizes natural and social sciences and technologies into personal knowledge and skills, thus directly improving the productivity of workers; while cultural capital focuses on the humanities and cultural concepts, and manifests at the very beginning as the personalization, materialization and institutionalization of cultural values and concepts.

In fact, the theory of corporate culture took the lead in putting forward the thought but not the concept of cultural capital. The theory of corporate culture requires building the corporate cultural environment and calls for the implementation of such concepts as a social concept, a management concept and a marketing concept. However, the question remains—why should companies develop corporate culture? Undoubtedly, companies develop culture to obtain more profits instead of just for culture itself. In the eyes of entrepreneurs developing corporate culture, corporate culture is just a kind of capital—developing corporate culture is the investment of cultural capital, which will create profits higher than the cost. This thought happens to coincide with the opinions of cultural capital.

From “physical capital” to “human capital,” such characteristics as totality, tangibility, and independence of capital were removed. From “human capital” to “cultural capital,” the capitalization of culture was revealed. Thus, the foundation for developing the concept of moral capital is laid, for the core of culture is morality.

²⁷ Christopher Clague and Shoshana Grossbard-Shechtman, *Cultural Capital and Economic Development: An Introduction*, translated by Wu Dan. See Xue Xiaoyuan (editor) and Cao Rong (editor), *Globalization and Cultural Capital*, China Social Sciences Publishing House, 2005, pp. 222, 223.

²⁸ Translated by Bao Yaming *Cultural Capital and Social Alchemy: An Interview with Bourdieu*, translated by Bao Yaming, People's Publishing House, (1997, pp. 196, 192–201). In the view of Bourdieu, cultural capital exists in three forms, namely, in the form of personal culture concretely, in the form of cultural products objectively, and in the form of cultural institutions systematically.

Including morality in the scope of capital is actually an inevitable result of the constant expansion of the concept of capital as well as a necessary requirement to make the economy the core of social life.

2.4.3 Morality acts as an Instrument in Promoting Economic Development

From “morality as an end” to “morality as an instrument,” and from “physical capital” to “moral capital,” moral capital is an innovative concept, which, however, is not a word game played on the basis of fantasy, but a conscious and theoretical understanding of the development of social practice. Behind the innovative concept are the strong requirements of social practice.

In traditional society, limited by science and technology, man could only obtain limited wealth from nature, and thus could only satisfy limited human needs. Limited wealth and needs determine the theoretical propositions in the historical context: people must, theoretically, demonstrate that human needs are limited and that among all human needs some are moral and thus desirable, and some are immoral and thus undesirable. In this case, morality as an end is required as a standard to judge limited needs and satisfaction. Of course, to obtain wealth to satisfy limited needs, moral instruments, such as diligence, frugality, and friendship, are also needed; but in the traditional society, these morals were undoubtedly at the edge of the moral system, subordinating to limited needs as morality as an end.

In modern society, as the development of science and technology, man almost can change nature as he wants, and the material wealth created by man has been growing nonstop. In the practical life with infinite wealth, man’s desire for wealth is completely liberated, reaching a state of “everything desired is desirable.” In this case, the demonstration of the morality of desires has been degraded to a minor theoretical issue as well as a major theoretical issue of how to maximize wealth to satisfy the maximum desires of man.

In the progress of modernization, through the value expansion of capital, the increase of wealth starts to hold the central position of the stage of history, and wealth and capital have obtained the right to re-interpret various social matters. First, they needed to recapture the economic positions, which were ethicized in the traditional society by stripping off the religious and moral coats of economic materials, restoring their economic nature. As a result, wealth and capital built a solid foundation called “physical capital.” After consolidating their economic positions, wealth and capital extend their influence to the traditional noneconomic fields. In these fields, the increase of wealth and capital become the light of ether, radiating every sector of social life to re-interpret social matters according to their standard. In this case, various social matters take on different characteristics, which serve the increase of wealth and the creation of profit. Consequently, “economic man” is derived from “social man,” and “politicians” are derived from “political rulers,” and all human behavior can be “analyzed economically (Becker 1996).” The concepts of “human

capital” and “cultural capital” are exactly an outcome of the process in which capital changes various social matters.

When capital involves noneconomic fields, morality is inevitably affected to some extent. In the trend of secularization, morality, though undertaking the noble mission of making the world meaningful, has to act as a kind of capital due to its special functions. Under the rule of material wealth and capital, morality can no longer abstractly stand high above all social matters; instead, like other social matters, it participates in the process of wealth creation and makes corresponding adjustments to make the greatest contribution to economic development. The concept of “moral capital” is the theorization of such change of morality.

Hence, the theoretical and practical significance of the concept of morality lies in that the concept agrees with the following reality: economic development is the core of today’s social development. Development is the theme of today’s world, and the core of development is economic development. Although in recent years, comprehensive development, which includes social development, has become a major social concern, but it is undeniable that the active force of comprehensive development is still economic development. Therefore, in real life, we should try to explore more elements and use all possible forces that can promote economic development. The concept of “moral capital” emerges as required by the times. It clarifies the function of morality as an instrument to promote economic development and tries to explore more moral elements in favor of economic development on a broader level.

As we can see, the existence of moral capital has been demonstrated practically and theoretically. Then, why are there still people unwilling to accept the concept of moral capital? I believe that it is because some researchers still have the following questions: is it moral to consider morality as a kind of capital? Will morality still be pure when it is considered as an instrument? Furthermore, will morality be deemed false if it is considered as a means to obtain economic profits?

Schultz faced the same questions when he advocated the concept of “human capital.” He found that the main reason that some people could not accept the concepts of “human capital” and “investment in human capital” is that they thought it was demeaning to consider man as an object of investment. He stated, “Hence, to treat human beings as wealth that can be augmented by investment runs counter to deeply held values. It seems to reduce man once again to a mere material component, to something akin to property. And for man to look upon himself as a capital good, even if it did not impair his freedom, may seem to debase him. No less a person than J. S. Mill at one time insisted that the people of a country should not be looked upon as wealth because wealth existed only for the sake of people. But surely Mill was wrong; there is nothing in the concept of human wealth contrary to his idea that it exists only for the advantage of people. By investing in themselves, people can enlarge the range of choice available to them. It is one way free men can enhance their welfare (Theodore 1990c).” When the concept of “moral capital” faces the problems once faced by “cultural capital,” our answer is as follows: like “cultural capital,” “moral capital” will not diminish the freedom and personality of man, or the purity of morality; instead, it will promote the freedom and personality of man as well as the comprehensive development of morality.

First, considering morality as a kind of capital focuses on morality's function as an instrument and requires the development of moral elements promoting economic development. Thus, it is helpful in laying a real and solid foundation for moral development in economic life. Historical materialism has told us clearly that profits are the real foundation for the formation and development of morality. Morality serving the self-interest of individuals and the collective interests of society will be accepted at last, though the process may be long and hard; and morality ignoring the self-interest of individuals and the collective interests of society will be abandoned at last, although such morality may be advocated in an amount of time. History has shown that when moral requirements and benefit requirements are disjointed completely, hypocrites and double-dealers would run rampant. The theory of moral capital calls for morals, which play the role of capital and promote economic development. Therefore, such morals are useful in real life and are needed by economic life. Undoubtedly, the advocacy of such morals will not become the hotbed of hypocrites and double-dealers. Instead, it will encourage morality to perform better in real life. Therefore, considering morality as a kind of capital and exploring morals that promote economic development is the most effective way to realize the internal combination of the economy and morality.

Second, considering morality as a kind of capital only means paying attention to morality's function as an instrument and setting right the relationship between morality as an end and morality as an instrument. It does not mean that morality can only acts as capital. When Adam Smith put forward the concept of the "economic man," he did not mean to replace or deny the concept of the "social man." Likewise, the concept of "moral capital" does not replace or deny the concept of "general morality"; it merely emphasizes that morality is also a kind of capital that was ignored in ethical research. Undoubtedly, morality should and must act as both an end and an instrument. However, in today's society, which is dominated by economic development, morality's function as an instrument is more urgently required, although its function as an end is still very important. Therefore, putting forward the concept of moral capital is not denying morality's function as an end, but strengthening morality's function as an instrument on the basis of acknowledging its function as an end, thus providing strong moral support for economic development.

Third, considering morality as a kind of capital is emphasizing the consciousness of the economic agent in economic development as well as the rationality of the inter-economic agent relationship, which directly affects and constrains economic benefits and economic development speed. Therefore, considering morality as a kind of capital does not debase morality, or destroy the nobility and purity of morality; instead, it highlights the irreplaceable and special roles played by morality in economic development. The concept of "moral capital" is not related to the issue of "what morality is," and thus will not change the extension of the concept of morality. In fact, it is related to the issue of "what the functions of morality are" and focuses on morality's function as an instrument. In modern times, morality acting as an instrument to promote economic development is of course noble and pure. In fact, the concept of "moral capital," by expounding the functions of morality as a kind of capital, demonstrates the irreplaceability of moral capital in economic

development, and at the same time, further defines and expands the practical significance of morality.

The development of the theory of moral capital and morality as an instrument is a “win-win situation” for economic and moral development. The investment in moral capital, on the one hand, will provide more resources for economic development; and on the other hand, will profoundly affect moral development. In the final analysis, the significance of the existence of morality not only lies in moral advocacy and consciousness but also, perhaps more importantly, in the special roles played by morality. What’s more, it is morality’s function as an instrument and the benefits created by moral capital that determine the truth and nobility of moral advocacy and the profundity and greatness of moral consciousness.

2.5 Moral Capital and its Development²⁹—Comments on *The Moral Capital of Leaders* by Alejo G. Sison

After publishing *Moral Capital* in 2000, I published a series of papers studying moral capital together with my colleagues, and wrote the book *Moral Capital Theory*.³⁰ Such works demonstrate the concept, basis of existence, basic characteristics, mechanism of action, and forms of action of moral capital from various perspectives, while garnering attention from academic circles. Some scholars agree with the theory of moral capital, but some believe the existence of moral capital is groundless, and have challenged my opinion. Therefore, it is necessary to conduct a deeper study on moral capital. In *The Moral Capital of Leaders* (Sison 2005a) (translated by Yu Wenxuan and Ding Min), Alejo G. Sison expounds the intension, characteristics, management, and forms of action of moral capital from an original perspective. This book is of obvious significance in terms of theoretical enlightenment and practical reference value.

2.5.1 What is Moral Capital?

What is moral capital? On what grounds does moral capital exist? Such questions have been repeatedly illustrated in my study. According to the opposing opinions and questions from academic circles, and *The Moral Capital of Leaders* by Sison, I formed the following analysis:

²⁹ Originally titled as *The Sixth Study on Moral Capital*, *Morality and Civilization*, Issue 5, 2006; reprinted fully in *Ethics*, Issue 1, 2007. This paper has been included in *Moral Capital and Business Ethics (Selected Works of Wang Xiaoxi)*, People’s Publishing House, 2009.

³⁰ *Moral Capital*, *The Second Study on Moral Capital*, *The Third Study on Moral Capital*, *The Fourth Study on Moral Capital* and *The Fifth Study on Moral Capital* are published in *Jiangsu Social Sciences*, Issue 3, 2000; Issue 1, 2002; Issue 6, 2004 and Issue 5, 2006, respectively. The book *Moral Capital Theory* was published by the People’s Publishing House in Feb. 2005.

2.5.1.1 Capital can be Interpreted in Different Dimensions in Different Social Contexts

By analyzing the concept of capital we can demonstrate that morality is a kind of capital. According to Marx, under capitalism, capital is the value that creates surplus value, which is the essence of capital. In *The Moral Capital of Leaders*, Sison ignores this classical idea of Marx, which thus limits his thought on moral capital. In a certain social institution, there are rational and irrational morals, and morals to be capital must be judged based on an analysis. Besides, not all capital is moral, or to say morals are not always of moral significance. Therefore, only in a just, equal and free socialist public ownership system could the real unity between moral capitalization and capital moralization be realized.

In Sison's book, we can see the characteristics of capital as the subject. He pointed out, "Capital was the productive part of wealth, the class of wealth that yielded revenue, the stock that was saved for future—as opposed to immediate—consumption" (p. 7). Moreover, "popular business usage understands capital to be synonymous with wealth, with wealth understood at a stock and not any specific kind or part of it. Among merchants and accountants, capital indicates the net value of wealth, the assets that remain once liabilities have been discharged" (p. 7).³¹ In short, "Initially, capital is almost always associated with wealth and property." (p. 6) "But, wealth by itself does not behave as capital, nor is capital always enabled to yield income" (p. 8) because "it's not enough just to have resources, assets or wealth; it is also imperative that one be able to capitalize such wealth" (p. 10). That is, "wealth first needs to undergo a certain process of transformation or conversion into property, before it can actually function as capital" (p. 10). What is more, "the conditions for the transformation of wealth into property and capital undoubtedly exist in the physical asset, but the transformation itself is the result of human mind and integrity. In other words, without the intervention of human beings, neither property nor capital could exist as such, for our mental powers are essential in the transformative process of "proptertization" and capitalization: the capturing and fixing of relevant socioeconomic information about resources. Yet, during much of the history of economic science, labor—the distinctively human contribution to the production of wealth—has surprisingly been conceived as a factor not only separate, but even diametrically opposed to capital. This was arguably Karl Marx's foremost contention" (p. 11).

Sison has profound insight into capital. He points out that wealth without unclear ownership, especially wealth with undefined ownership and institutional procedure cannot be capitalized. Wealth needs to be transformed into property before it can actually function as capital because it "permits one to identify, describe, capture, and organize in a user-friendly way the economically meaningful aspects of a resource" (p. 10). When wealth is transformed to capital, its value expands. However, it can only be realized through labor by wealth owners, taking credit as value orientation or the principle of conduct under certain ideological guidance. Sison tells us that on

³¹ Opinions quoted from *The Moral Capital of Leaders* are marked with the page numbers directly.

the one hand, capital, though being money and materials, shall have clearly defined ownership; and on the other hand, capital can only function as capital when it is involved in the production process as arranged by man. Regrettably, in the book, Sison does not further discuss capital's essence in terms of relationships—he does not systematically and profoundly analyze the logical relationship between the spiritual level (such as thought and morality) and physical level of capital. This may be related to the guiding philosophy and fundamental ideas of Sison. Regardless, the book is still of great significance for the development of the theory of moral capital.

In fact, the essence of capital in terms of relationships indicates that in the private ownership system, it is certain that owners of wealth or assets invest their wealth or assets in production in order to make profits through the labor of others. In this process, they will maximize the wealth for the next round of investment, and at the same time, minimize the expenditure on reproduction. However, in socialist public ownership system, though the fundamental purpose of wealth owners is still making profits, the input and output of wealth are balanced and rational, and most importantly, wealth is always used for the benefits of the majority.

Even in private economic activities, the flow and utilization of wealth from the value increment of capital are guided and constrained by socialist constitutions.

The economic value of capital is realized with the participation of the spiritual elements of capital. Maybe Sison's contention that the capitalization of wealth is the result of the human mind and integrity is different from my opinion to some extent; however, we both agree on one thing—morality is a kind of capital. Sison also acknowledges the existence of intellectual, human, and social capital, thus the existence of moral capital is natural.

2.5.1.2 Is Moral Capital Equal to Virtue?

What is moral capital? In *Moral Capital*, I wrote that moral capital refers to the ability of capital to produce social wealth in the process of production, and the moral philosophy and behavior that can create profits and benefits (Wang 2000b). Sison defines moral capital in a different way. He believes moral capital as “excellence of character, or the possession and practice of a host of virtues appropriate for a human being within a particular sociocultural context. Nowadays, its meaning could also be expressed by the word “integrity,” a trait suggesting wholeness and stability in a person as someone on whom others could depend or rely. Having virtues or an excellent character may be considered moral capital not only because they are a form of wealth, but also because they are productive capacities or powers that accumulate and develop in an individual, through proper investments of time, effort and other resources, including financial ones” (p. 41). Sison's definition of capital is of theoretical significance. First, he defines moral capital as “excellence of character” and believes moral capital can be expressed as “integrity,” indirectly equating “excellence of character” with “integrity.” This is a precise and appropriate hint (in a particular discourse context), for integrity (especially Sison's definition of “integ-

city” as “a trait suggesting wholeness and stability in a person as someone on whom others could depend or rely”) is an important lever that promotes the value expansion of capital. Second, Sison believes that moral capital is “the possession and practice of a host of virtues appropriate for a human being within a particular sociocultural context.” Expressions like “a particular sociocultural context” and “appropriate for a human being” were deliberately used, for virtues vary as the change of times and nationalities. Only in this way, the concept of “moral capital” would not be generalized. Third, Sison points out that moral capital is the “excellence of character.” The reason is that moral capital, being a kind of wealth, is also a capacity or power with productivity, which is an important precondition or basis for the existence of moral capital. In fact, morals, virtues or excellent characters are only a kind of potential moral capital, or, at most, a moral asset has not participated in production yet. We cannot equate morals, virtues or excellent characters with moral capital. Therefore, Sison’s definition of moral capital still needs to be questioned as it indicates conceptual expressions of “morality can be defined as moral capital” and “moral capital can be considered as morality,” which are seriously flawed in wording and formulation.

2.5.1.3 The Manifestation and Noumenon of Moral Capital

In the concept of moral capital, morals are useful or scientific morals that are involved in the production process and the creation of social wealth. Such morals must be the ideal presentation of morality in social life, and thus moral capital is necessary in economic activities. Sison understands it in a special but reasonable way. He writes, “Happiness represents the definitive form of moral capital. Happiness is moral capital in its perfect state, where there is only pure gain or accumulation and loss is no longer possible. Even the use or consumption of this form of moral capital does not cause it to diminish, but on the contrary allows it to grow further. Once achieved, moral capital in the form of happiness is no longer subject to future risks and its value becomes more intrinsic than instrumental. The reason for wanting happiness—for accumulating moral capital in this form—is none other than happiness itself” (p. 189). Then, he quotes Aristotle, “A nominal agreement exists regarding happiness—a good, flourishing life—such as that which human beings ultimately seek in all their activities” (p. 190). Therefore, “In the optimum of happiness, there is only pure gain and enjoyment, without any risk of loss. The value of happiness as moral capital is substantive rather than instrumental” (pp. 195–196).

Sison considers happiness a manifestation of moral capital and points out that value is the noumenon of happiness. From this perspective, we can demonstrate, at a deeper level, that moral capital has good reasons to exist due to its aggressiveness and the functions of guidance and completeness.

Of course, happiness, in the scope of morality, is defined in different times and classes. Happiness, as a manifestation of moral capital, should be the “should-being” happiness pursued by people in a certain society.

2.5.1.4 The Perfectness of Moral Capital Determines the “positivity” of its Functions and Benefits

In economic development, the input of moral capital will not change with the increase or decrease of profits and benefits. The reason is that moral capital is a kind of spiritual capital, so once it exists, it means that the economic agent is of excellent morality, and physical or money capital has been managed according to a certain value orientation of the economic agent to achieve a good end. Otherwise, moral capital cannot exist. For this reason, there is no need to consider the retreat of moral capital, for it would always promote economic development. Physical and money capital will face low profits, or even a loss occasionally, but this has nothing to do with moral capital. In fact, when guided by the value orientation of a noble economic subject, moral capital will try to change the way and field of investment of physical and money capital, thus expanding the value of profits and interests. Moreover, when physical and money capital retreats from the original investment channel due to sluggish economy or bad management, moral capital always plays the role of guidance and coordination.

For the above, Sison shares my opinion, which he expresses clearly and reasonably. He believes, “moral capital does not share that ambivalence, or equal usefulness for the good or the bad, that the other forms of capital display” and “it can never be used to further evil purposes” (p. 46). For moral capital, “one distinguishing characteristic is that it will not cause any losses” (p. 130). He also states, “That is, virtue is a ‘positive externality’, a good that is non-rivalrous and non-excludable in its consumption. This means that whatever gain one makes in moral capital or virtue does not detract from any others’, and it would actually cost everyone more if somebody were to be excluded or barred from the benefits of moral capital or virtue of himself. Likewise, if someone’s virtue can only benefit himself, according to its attribute as ‘public goods’, it can be said that there is a lack of virtue. Market mechanisms alone could not provide it, since it would always be easier to freeload on the benefits of other people’s virtue than to take the pains of developing it oneself” (pp. 216–217). Sison’s conclusion that “market mechanisms alone could not provide it” is quite precise and appropriate. Virtues, as a kind of moral capital, cannot be transacted or exchanged, and will not be consumed or lost; they only play the role of promoting, reconciling, and perfecting economic development. When expounding “virtues as a kind of moral capital,” Sison makes a logical flaw. He states, “Unlike human, intellectual, cultural or social capital that perfect the person in just a limited aspect—be it in health, knowledge, an aptitude or skill, or through an advantageous acquaintance or relation—moral capital is unique in that it perfects the human being as a whole person. Moral capital is onto what makes a person strong, or smart, or thrifty (instead of being liberal or generous); it is not even what makes a person successful in business. Rather, moral capital is what makes a person good as a human being. This doesn’t mean that a person well-endowed with moral capital, by this very measure, is necessarily devoid of bodily strength, or health, or intelligence, or has to reject profit in business ventures. It only means that such a person would never readily sacrifice his moral excellence as a condition

to gain health, knowledge, social connections, or profit” (p. 41). It seems that Sison considers moral capital as a kind of completely independent capital that is separate or even opposite of capital in other forms. This is rather one-sided and wrong. In fact, moral capital does not independently play its roles in economic activities—it penetrates into human behavior, physical capital, and management institutions to function (Wang 2000b). Meanwhile, capital in other forms, such as human, intellectual, cultural, and social capital cannot exist or function without the special roles played by moral capital. Moreover, moral capital promotes the health, knowledge, intelligence, and technical level of man. It is metaphysical to think that “moral capital is onto what makes a person strong, or smart, or thrifty; it is not even what makes a person successful in business.” This opinion in Sison’s book is actually self-contradictory.

2.5.1.5 The Significance of Moral Capital Lies in Actions

The significance of moral capital, which lies in actions, is an important contention of Sison in the book. He points out, “The key to developing moral capital consists in taking advantage of the dynamics among three operational levels found in the human being, namely, the level of actions, the level of habits and the level of character. Among these levels, actions are the elementary building blocks, and may be considered the basic currency of moral capital. This means that nothing in human agent acquires moral significance unless it issues into actions or comes as a consequence of actions” (p. 62). He also states, “That moral capital relies mainly on actions means, in the first place, that thoughts or ideas are not enough, no matter how indispensable they may be. Leadership, or the accrual of moral capital for oneself and one’s organization, is not a theory but an art, a practice” (p. 84). Moreover, he specially stresses, “Moral capital is built upon actions, on the exercise of actions. This means it’s not enough to have the capacities to act or to act with sense” (p. 85). Moral capital is not built “on the mere possession of capacities for action” (p. 85).

The thoughts of Sison have revealed the important characteristics of moral capital—no matter how developed moral consciousness is and how systematic moral code is, morality cannot be capital without actions.

Here, we require a further analysis of the following question: “What does turning morality into action mean?” In his book, Sison does not answer this question, which, in my opinion, is caused by the lack of a rigorous, theoretical and logical analysis. Sison’s contention that “moral capital is built upon actions” indicates that thoughts and ideas, or morality itself cannot become moral capital. We must know that once thoughts and ideas or morality are put into action, they become an element of moral capital. Therefore, it is appropriate to change “moral capital itself is not a theory” into “moral capital itself is not just a theory.” Turning thoughts and ideas or morality into action is not a general moral activity; in fact, it also includes such economic activities as the formulation of production, management, sales services, and corporate institutions, which are conducted under the guidance of thoughts and ideas or morality. Morals, like being civilized and polite, taking pleasure in helping

others and protecting the environment, without being related to economic activities, or playing particular roles in economic development, cannot become moral capital.

2.5.2 *The Functions and Management of Moral Capital*

In a series of papers concerning moral capital written by my colleagues and me, the functions and management of moral capital are discussed from different aspects. In terms of functions of moral capital, moral capital affects and determines the value orientation, attitude towards labor, and way of act of the economic agent or producer. Meanwhile, it also reconciles the relationship between various stakeholders in the process of economic development, thus maintaining the rational and harmonious relationships of the stakeholders with the special power of morality. During the process, moral capital also acquires the special ability of creating social wealth.

The primary function of moral capital is enhancing the morality of leaders. In *The Moral Capital of Leaders*, Sison focuses on “leadership.” He believes that leadership grows from morality. “Leadership is a two-way transformative and intrinsically moral relationship between a leader and his followers. The two parties involved in a leadership relation—the leader and his followers—morally transform and elevate each other through their interaction. Thus, ethical leadership becomes the primary conduit through which not only persons, but also organizations for which these persons work, become ethical. Leadership nurtures personal ethics, allowing it to grow and configure an auspicious organizational culture” (p. 50). From the perspective of leadership, Sison stresses, “Ethics lies at the very heart of leadership” (p. 49). Sison tells us that a leader, when losing his morality, will lose the trust of his followers and his authority as well. Furthermore, leaders that lack morality certainly do not have charisma, and naturally cannot analyze and organize with the power of morality, let alone understanding how morality penetrates into economic activities to play its unique roles. Therefore, in the scope managed by a leader lacking morality, moral capital can hardly be utilized and even cannot play its role in economic activities. We must say that the theory of moral capital of leaders put forward by Sison is of great academic value and significance of guidance.

According to Sison, to have moral capital, a leader must first be moral. He writes, “A sine qua non condition for a good leader is that he be, at the same time, morally upright and professionally competent or effective” (p. 48). Second, a leader is required to lead in the forms of both stewardship and servant-leadership. “Stewardship reflects a significant reform on the thinking mode of leadership, for it emphasizes on an even deeper sense of responsibility of a leader for his followers.” “A steward-leader should respect the right of his flowers to make decisions about their work, and also acknowledge their capacities of influencing the purposes, organization and institutions of the organization” (p. 51). “Servant-leadership is an even more revolutionary trend than stewardship, for it turns traditional leadership thinking, with its emphasis on a high-profile figure and his stellar interventions, upside

down. A servant-leader should not only recognize the interests of others in the organization: he is also duty-bound to transcend his own self-interest to better serve the others' needs. His obligation is to provide those under his care with a chance to grow and develop as persons; he ought to furnish them with opportunities to gain, both materially and morally, through the work that they do in the organization" (pp. 51–51). Third, a leader must realize the importance of trust because "without this atmosphere of trust, no dialogue, no understanding, no cooperation, no commerce, no community would be possible." "The social cohesion that arises from the growth of trust, as we already know, lowers transaction costs, facilitates entrepreneurial initiatives and boosts economic competitiveness" (p. 52). Sison thoroughly analyzes the importance of morality for leadership. In his final analysis, to develop morality, or to accumulate more and better moral capital, a leader must be moral. He must respect his followers for they are equal in personality; he must put the benefits of his followers first; he must epitomize the wisdom of his followers; and, more importantly, he must be a moral model. Leaders that have a strong sense of hierarchy or enjoy playing politics must be mediocre and incompetent, and will certainly lack or lose moral capital.

The core role played by moral capital is improving the moral consciousness and determining the value orientation of the economic agent. The economy does not exist without man. All economic activities are the externalization and materialization of the thoughts and morals of man. Therefore, unlike other kinds of capital, moral capital must, first, solve the spiritual problems regarding capital, namely, improving the moral consciousness of man, perfecting the code of economic actions and determining the direction of action and value orientation of the economic agent. It can be said that in the absence of the economic agent's moral consciousness, there would be no moral capital, and other kinds of capital cannot smoothly acquire the profits and benefits they should make. "Without moral capital, capital in other forms is likely to turn from the advantages of a company into the source of its decline" (p. 56). Taking companies like Enron Corporation as an example, Sison illustrates that the loss of morality will lead to the loss of other kinds of capital. Likewise, in China, the lack of morality and credit has led to the decline or sudden collapse of some famous and even time-honored companies.

As I once demonstrated this contention in *Moral Capital*, moral capital directly improves product quality and lowers product costs, thus creating more profits. Here, I want to emphasize that, generally, moral capital ensures product quality. We must see that for a company, development is a process of operation in which many aspects and elements are involved; therefore, good product quality may lead to higher-than-expected or lower-than-expected benefits and profits. A company fulfilling its after-sales service commitments with integrity will certainly expand its market share and accelerate sales and capital flow, thus making more profits. At the same time, product quality is improved. On the contrary, if a company fails to fulfill its after-sales service commitments, its market share will shrink and its sales and capital flow will slow down. Consequently, fewer profits are acquired, and product quality is lowered, while product cost is increased.

2.5.3 *Development and Enhancement of Moral Capital*

The premise for the formation of moral capital is that the economic agent develops a certain level of moral consciousness and can guide or effect economic behavior in economic activities. Capital moral will not take shape when the economic agent just knows some knowledge about morality, or there are just standards about good and evil or moral code established in society. The reason is that if moral requirements have not become the self-consciousness of the economic agent, or have not played roles in economic activities to promote the increase of wealth, moral capital does not play its roles, and there is of course no moral capital. Therefore, developing moral consciousness is an important approach to developing and enhancing moral capital.

Moral capital, unlike physical capital, can only be enhanced by constant development. According to Sison, "Developing virtues is adding investment stocks in moral capital" (p. 155).

Sison says that actions are the basic currency of moral capital. He creatively believes that the development of habits can continuously increase moral capital. According to him, "Habits arise from the repetition of voluntary human actions." "If actions, which make up the basic currency of moral capital, constitute the principal in an account, habits correspond to their compound interests. Habits are the payoff in terms of moral capital for the repetition of voluntary human actions" (p. 97). It is reasonable to consider habits as a kind of moral capital. However, in the definition that states "habits are the payoff in terms of moral capital for the repetition of voluntary human actions," the expression of "voluntary human actions," in my view, is vague, and is likely to cause misunderstandings. It is better to reword it as "conscious human actions."

Sison holds that time and freedom are two requirements for the development of habits. "Time means a certain permanence or duration in being" (p. 111). In my view, taking time as a requirement is of no practical significance and can be ignored. Sison stresses, "Habits are always developed gradually as a result of the repetition of actions" (p. 111). This is indisputable, but taking time as a requirement is unnecessary and weak theoretically. In fact, by just slightly changing the perspective and wording of "habits are always developed gradually as a result of the repetition of actions," which is an object fact, we can change its focus from the length of time to the importance of the repeated force and constant practice of actions, making the requirement theoretically strong. The second requirement is freedom. Sison divided freedom into physical, psychological and moral freedoms. Physical freedom "consists in an openness of one's nature and a capacity for movement." Psychological freedom "means whenever a person chooses, the determining factor in his choice is none other than himself, that is, his sovereign will." Moral freedom is "more powerful than the natural state of a person; it arises from personal virtue and moral habits" (p. 112). He adds, "Physical freedom and psychological freedom are 'negative freedoms'; freedoms from contrary physical forces and psychological forces. Moral freedom, on the other hand, is a 'positive freedom'" (p. 112). In addition, it is "a more powerful freedom." Sison uses the concepts of physical freedom and psychological freedom to outline and compare against moral freedom, a sub-

stantive characteristic of morality. However, the problem is, according to Sison's explanations of physical and psychological freedoms, the concepts of physical and psychological freedoms do not exist. In his final analysis, "negative freedom" is not freedom at all. I point out this problem to emphasize that real freedom is the freedom to grasp the objective law of natural and social development and act according to such law. Only in this way could we understand the relationship between the development of moral habits and freedom. In other words, only when an economic agent acquires freedom, or the so-called "moral freedom" according to the law of moral life, could he develop habits as moral capital.

To develop virtues, adding investment stocks in moral capital, Sison, on the basis of stressing that "the nature of habits represents a kind of moral capital superior than other activities" (p. 127), holds, "habits are not the decisive factor for the formation and development of moral capital," and "the character of man usually is more influential than habits" (p. 127). The reason is that character is built based on habits. "We could say that character or culture is like a bond in moral capital. Bonds are financial instruments that governments or corporations use in order to raise funds. An investor defers consumption and purchases a bond in the hope of receiving an income for a set number of years. Only after this period does he expect to recover the principal or the original amount of the loan" (p. 129). "Just like bonds, character and culture are the result of a long-term investment, usually of several years' worth of continued efforts on the part of agents. Once established, however, they no longer change easily, nor are they ordinarily susceptible to loss. They entail the barest minimum of risk. That is because character and culture embody the conscious and willful determination of one's freedom and reason in a motley set of deep-rooted and enduring habits. Unlike bonds, however, character and culture could enjoy high rates of return, income or interest, together with low risk. A person's habits, once securely entrenched in character, do not only enable him to perform ever more and better actions, but they also predispose him to acquire other habits similar to those he already has, and likewise increase their perfection" (p. 130).

In short, according to Sison, the development and enhancement of moral capital requires the development of moral habits, and the addition of investment stocks requires the development of character. This is a central issue regarding the formation of moral capital. From the perspectives of "habits" and "character," Sison demonstrates the development and enhancement of moral capital. His study is original and valuable.

A problem is that Sison only analyzes the development and enhancement of moral capital from the perspectives of personality (the personality of man or the company as man). At this point, his thoughts are undistributed. The development of habits and character requires the participation or cooperation of various elements, and some elements need special attention and need to be specially crafted. First, the possibility for the penetration of the moral concepts of capital in other forms is created. To manufacture a product, particular technical and cultural parameters are needed. What's more, particular moral concepts are also needed to affect or change products designed according to general technical and cultural parameters, making the product meet the production and living needs of man in a better way. Additionally, during the entire process of manufacturing, moral concepts can effectively play

the role of guidance, regulation and supervision. Second, the mechanism of action of moral capital is studied and turned into operable procedures and institutions. Otherwise, even with the presence of noble moral consciousness and the “habits” and “character” that Sison mentions, morality cannot turn into moral capital. Third, action is required for the formation and development of moral capital, and “appropriate social and cultural background or community environment” are needed for turning morality into practice. Therefore, when studying the development and enhancement of moral capital, we cannot ignore the purification and perfection of social and cultural background and the social environment.

2.5.4 The Management of Moral Capital

Sison discusses the issue of moral capital management in his book. This is worth mentioning, theoretically or practically. Bad management of moral capital will lead to low profits, and even the loss of moral capital.

Sison points out that “the best strategy of moral capital management is investing the lifestyle of pursuing morality” (p. 194), “for a person, the lifestyle gives unity and texture to everything he does: the feelings he experience, the actions he performs, the habits he cultivates, and the unique character he forges; it lends structure and meaning to his existence” (p. 195). He also points out that the lifestyle of a company (or the history of a company) is like the lifestyle of a person. About this, his one insightful opinion is managing moral capital through the “lifestyle pursuing virtue.” To manage moral capital, it is necessary to stock moral capital first. “Investing the lifestyle of pursuing morality” is actually about developing such virtues as justice, temperance, bravery and cautiousness in a wider sense, namely, in the sense of the all-round lifestyle of man or the company, thus creating the maximum or best “moral heritage.”

According to Sison, to manage moral capital effectively, we must be able to measure moral capital. Sison mentions two “measurement strategies”: “one consists in indirect measurement, which measures the absence or lack of moral capital and its consequences. The other engages in direct measurement which detects the presence of moral capital and its effects” (p. 205). On the one hand, Sison believes that indirect measurement, which measures the absence or lack of moral capital and its consequences, is the quantitative analysis of employee behavior (such as mobility, absenteeism and indolence) and illegal behavior (such as assault, attack, murder, pilferage, and embezzlement of corporate resources by accident or on purpose). On the other hand, he believes it is the qualitative analysis of negative factors like employees’ life quality, happiness, faith, and value orientation, for knowing the lack of moral capital (pp. 206–208). It can be inferred that according to the analysis results, concepts and measures about how to avoid the consequence of the lack of moral capital and how to develop and enhance moral capital will come into being. Direct measurement is the qualitative analysis of the “qualification, royalty and satisfaction of human capital and corporate atmosphere of a company” (p. 211). To be specific, direct measurement includes measuring the social, environmental and ethical responsibilities of companies and individuals; measuring companies’ ability

to attract, motivate and retain talents; measuring companies' reputation which effectively retains a customer base and enhances the royalty and donation of employees; and measuring whether entrepreneurs "value teamwork, take customers as the center, appreciate fair competition, constantly make innovations and take initiative" (p. 212). According to Sison, the direct measurement of moral capital means quantitatively analyzing "human capital revenue, return on the investment in human capital, and the added value of human capital" (p. 219). By directly measuring moral capital, we can form a clear picture about the stock and lack of moral capital, thus accumulating experience as well as learning lessons. At the same time, we can effectively choose investment stocks of moral capital for the accumulation of moral capital currency.

Sison's moral capital management philosophy is a significant breakthrough in the field of modern corporate management. From a brand new perspective, he explores a new sector in modern corporate management.

Of course, the management of moral capital is a systematic work. A specific plan covering the content, methods and ways as well as objectives of moral capital management is needed. Moreover, strategies and measures regarding moral capital management need to be developed from the perspectives of moral concepts and practical operation, companies and individuals as well as correction and investment. In different countries, areas and companies, the requirements of moral management are different, even essentially. In this case, moral capital management plans need to be developed according to specific circumstances, thus realizing the efficient management of moral capital.

In China, there is an urgent need for taking stock of the moral capital of companies in an all-round way. It is necessary to analyze such moral capital profoundly as the management philosophy and objectives of companies, the moral quality of managers, the moral quality of employees, the moralization of corporate institutions, the morality contained in corporate culture, corporate moral environment, the human-centered design of products, the sincerity of intercompany cooperation, after-sales service commitments and their fulfillment, corporate social responsibility, corporate morality and moral capital management. Only in this way, could we accumulate more and better moral capital, make full use of the functions of moral capital and enhance the core competitiveness of modern companies constantly.

2.6 The Basic Forms of Moral Capital³²

Over the past decade, I have made a series of studies on moral capital,³³ especially the functions of moral capital from multiple perspectives. Undoubtedly, "without moral capital, capital in other forms is likely to turn from the advantages of a com-

³² Originally titled as The Seventh Study on Moral Capital, Morality and Civilization, *Ethics*, Issue 11, 2009. This paper has been included in *Moral Capital and Business Ethics (Selected Works of Wang Xiaoxi)*, People's Publishing House, 2009.

³³ Before *The Seventh Study on Moral Capital*, I have published six papers and one monograph studying moral capital. Moral Capital (the concept and value realization of moral capital), *The*

pany into the source of its decline (Sison 2005b).” This has been repeatedly demonstrated by theories, history and reality. As a kind of special capital, moral capital not only has the characteristics of general capital but also has its own characteristics. According to nature, effects and functions, general capital can be divided into different forms, as can moral capital. In the very least, it exists in the forms of moral institutions, rational relationships, subject consciousness and moral products. Studying and expounding the four forms of moral capital will help us to understand moral capital and its forms of existence from a new perspective, thus better grasping the management mechanism of moral capital.

2.6.1 *The Form of Moral Institutions*

The form of moral institutions is a basic form of moral capital with fundamental significance. A society is filled with many norms and constraints, tangible or intangible. Institutions, which are tangible norms, play the role of guaranteeing economic development and business operation. Put another way, they ensure normal, regulatory and efficient economic development. No matter the means, institutions are formulated to service people and shall therefore be rational in value. Rational institutions cannot be separated from morality—they should be moralized as moral institutions. The institutionalization of morality, or the moralization of institutions, is actually a process of seeking the virtuous interaction between morality and institutions, rather than counter posing morality and institutions, which will lead to the extreme conclusion of “morality is not an institution, and an institution does not require morality.”

In some sense, if a moral institution, by normalizing and constraining human behavior, can promote the increase of economic and social benefits, the institution is of significance to moral capital. Therefore, moral institutions are moral capital. In fact, moral capital in the form of moral institutions plays a decisive role in economic activities. Once an institution lacks morality, or becomes an instrument that destroys human nature and distorts human relationships, economic activities cannot yield expected benefits and even normal economic activities will be destroyed, no matter what measures are taken. The American economist Douglass C. North once said, “The structures of political and economic organizations determine economic performance and the growth of knowledge and technology. The various forms of

Second Study on Moral Capital (the effects and functions of moral capital, co-written by Yang Wenbing), *The Third Study on Moral Capital* (the dependence and independence of moral capital, co-written by Zhu Huiyu), *The Fourth Study on Moral Capital* (moral capital from the perspective of economics, co-written by Hua Guihong), and *The Fifth Study on Moral Capital* (the concept and functions of moral capital in the history and the contemporary world, co-written by Li Zhixiang) were published on Issue 3, 2000; Issue 1, 2002; Issue 6, 2002; Issue 6, 2004; and Issue 5, 2006 of *Jiangsu Social Sciences* respectively. *The Sixth Study on Moral Capital (Comments on The Moral Capital of Leaders by Sison)* was published on *Morality and Civilization*, Issue 5, 2006. Monograph *Moral Capital Theory* (co-written by Hua Guihong, Guo Jianxin et al.) was published by People’s Publishing House in 2005.

cooperation and competition in human development and their implementation, as well as the institutions organizing human activities are the very center of the economic history (Douglass 2002).” We can derive from his thought that moral institutions play unique roles in economic activities.

An opinion, which has been long held, is that the market is unrelated to ethics, the economy is unrelated to morality and the institution is unrelated to humanity. In several centuries, some theorists claimed that a company is an “amoral” entity, thus it does not need to undertake moral responsibilities. However, today’s society requires companies to undertake moral responsibilities, announcing the end of the era in which management and institutions were free from ethics. “Managers are starting to pay attention to corporate morality. They do not consider it as decorations or a special hobby, but an organic component of efficient management that is involved in every aspect of business operation (Lynn 2004).” In business management, this is the “return of value,” which, in the context of Max Weber, is the return of “culture.” According to Weber, actions are profit-driven, and culture, in the form of religions, determines the direction of actions. In my opinion, morality, in the form of institutions, guides actions to be rational. Then, what are the functions of institutionalized morality? In general, institutionalized morality imposes necessary constraints on human behavior; without such “necessary” constraints, it is difficult to realize free business operation. Essentially, moralized institutions mainly play two roles in business operation.³⁴

First, for a company, externally, moralized institutions effectively constrain opportunistic behavior. In a transaction, the behavior of parties involved is uncertain, and in this case, an important source growing and increasing transaction costs is the behavior with “moral hazard” of one party, which will infringe the interests of the other party. Moral constitutions can constrain opportunistic behavior as “free riders.” Therefore, the participation of necessary moral constraints in a transaction can lower transaction costs. Furthermore, the requirements of moral institutions constitute the self-discipline mechanism and incentive mechanism that works on parties involved in a transaction, thus lowering transaction costs and increasing mutual benefits.

Second, for a company, internally, the constraint of necessary moral institutions will improve labor efficiency, economic benefits and resource utilization, promoting the formation of a healthy, natural source ecology and social ecology. Therefore, “the ethical atmosphere built by managers is crucial for the success of the organization for which they work.”³⁵ On the one hand, the constraint of moral institutions ensures human-centered product design and the fulfillment of after-sales service commitments. On the other hand, the constraint of moral institutions guarantees

³⁴ In this case, “business operation” is understood in a wide sense, including various business operation and the entire processes thereof. In some sense, “business operation” is a synonym of economic activities.

³⁵ [US] Dennis J. Moberg, Trustworthiness and Conscientiousness as Managerial Virtues. See [us] Daryl Koehn (editor) (2003, p. 195), *Trust and Business*, translated by Lu Xiaohu et al., Shanghai Academy of Social Sciences Press, 2003, p. 195.

the perfection of human nature and the realization of all-round and free human development. As Sison states, “The main end product or result of doing is not an independent artifact, but rather, an operative moral habit. And in the measure that what one acquires are virtues, the process of self-production is, at the same time, a process of self-perfection (Sison 2005b).” Sison expresses the opinion that rational corporate behavior not only creates goods but also promotes self-perfection. The basic precondition of rational corporate behavior is the constant improvement of moral institutions.

In today’s world, among various economic, political, environmental and security issues, moral capital is a necessary element. However, how can we combine morality with corporate management institutions and economic decision-making? According to Paine, there are four questions, which present four modes. The four questions are as follows: What are our goals? What do we want to be? What do we own to others? What are our rights? The four corresponding modes are *goal*—whether the action serves a valuable goal; *principle*—whether the action follows relevant principles; *man*—whether the action respects the legal interests of people involved; *power*—whether we have the right to take the action (Lynn 2004). The process of following the above four modes to make decisions and formulate institutions is actually the process of realizing the institutionalization of morality, or creating moral capital. That is to say, the ultimate value pursuit of moral institutions is corporate responsibility or corporate morality. Sison defines corporate morality as “The main virtue to be practiced in the production of basic moral capital assets or currency is, therefore, that of justice: the constant and firm will to give to each of one’s associates—or to every one of a firm’s stakeholders—his due in accordance with law. Justice disposes the agent to respect the rights of others and to establish harmony in human relationships such that equity and the common good are promoted (Sison 2005b).” This is the essence of moral capital. For China, moral institutionalization means the institutionalization of such morals as patriotism, justice, integrity, humanity and friendship.

2.6.2 The Form of Rational Relationships

The form of rational relationships is a basic form of moral capital in the dimension of subjectivity. Morality, in the form of the rational relationships between man and man as well as man and society, directly determines the result and benefits of corporate economic activities. Through reconciling interpersonal relationships, moral capital in the form of rational relationships reduces “friction consumption,” thus improving productivity and resource utilization. In the final analysis, it synergizes economic benefits.

First, the construction of the internal rational relationship of a company promotes the formation of moral capital. Such relationship reduces interpersonal “friction consumption,” realizing interpersonal harmony. Morality reflecting rational interpersonal relationship acts as the lubricant for social relations. “Just because of

the fact that they are trusted and loved, those who do not deserve our trust and love may be believable and lovely.”³⁶ In fact, the interpersonal relationship guided by trust and love is a special moral force.

A company is composed of complex subjects. Subjects playing different roles interact and cooperate to form an entity. Within the company, there is a complex and clear-cut division of labor—even a simple product is made based on interpersonal cooperation. Therefore, employees are connected by both cooperation and competition, which, exist in each other. Particularly, in modern and intensive production, the rational interpersonal relationship helps employees develop the modern concept of competition—coopetition, which directly promotes rational and conscious production and transaction activities, increasing productivity and labor efficiency.

However, there are still companies which, having been affected by Western Taylorism for a long time, apply a material-centered instead of a human-centered management mode in management and production. For them, laborers are just “materials” or “talking instruments” inputted into production. In this case, companies are alienated into “a place that provides laborers in exchange for money (Wang 1999).” The personality of employees is derogated and their enthusiasm is destroyed. As a result, their optimal productivity cannot be realized. Nowadays, short-sighted companies who put materials in front of laborers have been gradually expelled from the market. On the contrary, many excellent companies, especially transnational corporations, take the interests of employees seriously. For example, workplaces are designed rationally according to the needs of employees, such as the needs of work, education and entertainment. By trying to meet human needs, which is a requirement for establishing rational interpersonal relationships, such companies have won the praise of society and have taken the lead in human-centered management. In fact, a company with rational management and competition is surely harmonious in interpersonal relationship, which makes the company more capable in making a profit.

Second, the external relationship includes intercompany relationships, and the relationship between companies and other social factors (individuals, groups and society). A harmonious external relationship helps companies to make the best use of shared resources to create profits. In fact, companies are also connected by the coopetition relationship. Cooperation is the basis for a win-win situation. For example, nowadays, competitive bidding has become a basic economic activity of companies to exist and develop. From the perspective of the owner, when a project is to be carried out by one company, he will divide the project into some subprojects and invite several companies to bid for the project. The introduction of the competition mechanism is helpful in controlling project quality, progress and costs. From the perspective of the bidders, they are given an opportunity for fair competition,

³⁶ [US] Fernando L. Flores and Robert C. Solomon, *Rethinking Trust*, See [us] Daryl Koehn (editor), (2003, p. 76) *Trust and Business*, translated by Lu Xiaohu et al., Shanghai Academy of Social Sciences Press, 2003, p. 76.

and winners of the subjects can, during the process of the project, cooperate with and learn from each other, and share profits. The example tells us that the unity of cooperation and competition is the unity of the moral man and the economic man. Upon the realization of such unity, the relationship between rivals will turn from the original win-lose, which is in opposition and exclusive, to win-win. Thus, a rational relationship is built between companies, and moral capital grows and develops. Consequently, corporate development is greatly encouraged.

The rational relationship between companies and society is also a form of moral capital. Through harmonious cooperation, various available resources are fully used, and the forces of different parties are effectively reconciled. In this way, the creation of material and spiritual wealth is maximized. Upon the hypothesis that our society is rational, companies are required to undertake necessary social moral responsibilities in the first place. Only in this way, the communication between companies and society can become the basis and condition of making a profit.

Of course, whether the internal and external relationships of a company can well play their roles depends on the sense of responsibility of the parties involved. There are mainly three views on corporate responsibilities. One is “profit first,” that is, companies are for-profit, so they only need to undertake economic responsibilities, and other responsibilities shall be subject to or included in economic responsibilities. The second view is “theory first,” namely, companies are legal persons with a moral personality, so their social responsibilities include responsibilities to the exclusion of direct economic responsibilities (such as responsibilities for environmental protection, the government and public, and consumers and employees). The third view is “reconciliation first,” which calls for determining the social responsibilities of companies from the perspective of a dynamic social system. In fact, corporate social responsibility is a dynamic concept. We need to find the balance where companies undertake the right amount of responsibilities during the dynamic process. When companies undertake necessary social responsibilities, a rational relationship is built between companies and society that is based on which corporate images and reputations have a rising growth. Companies with and without good reputations hold quite different statuses in market competition. Reputation directly determines the future of a company. A good reputation helps a company to remain invincible in market competition. It can be said that a good corporate reputation lays the basis for trust and cooperation, and is the premise for building rational relationship and promoting profit making. As Sison states, “trust lowers transaction costs and is the key to solving the problem of corporate action (Sison 2005b).” The American scholar Francis Fukuyama studies trust, a kind of moral capital. He believes that when the sense of trust is widely developed in a social network, then the cooperation (transaction) between any social members in the network will cost less than that in a social network full of the sense of distrust (Fukuyama 1998).

Of course, we must notice that the formation and development of moral capital in the form of a rational relationship tends to be affected by many internal and external factors. Therefore, the management mechanism of such moral capital is more difficult and complex.

2.6.3 *The Form of Subject Consciousness*

The form of subject consciousness is also a basic form of moral capital in the dimension of subjectivity. Moral capital in the form of institutions and rational relationships focuses on complex intersubject interactions (such as relationship, environment, communication and competition), whereas moral capital in the form of subject consciousness is about the subject's noble value orientation and active attitudes towards life.

Man is the carrier of culture and is more the undertaker of morality. Moral capital in the form of subject consciousness is mainly embodied in subjects engaged in production, management and service activities. In fact, it is not very precise to say so. The subjects of economic activities are not only carriers (passive and mechanical) but also initiators (active and creative). In other words, people engaged in real economic activities are not what Gottfried Wilhelm Leibniz calls "monads," but what Engels calls "conscious people who act and pursue some purposes based on deliberation or just passion; everything happens for conscious purposes and expected goals."³⁷ Since human activities are not mere spontaneous impulsions, it can be said that the activities of economic agents must have purposes and targets.

Therefore, the problem is not whether human activities have purposes or not, but whether the purposes are rational or not, and what the standard is for making a judgment. According to the hypothesis of rational behavior or hypothesis of the rational man, which is the foothold and primary precondition of mainstream Western economics, behavior meeting the requirements of self-interest maximization (or Pareto optimality) is rational; otherwise, is irrational. The typical mode representing the logic hypothesis is the Prisoner's Dilemma in game theory. In fact, the Prisoner's Dilemma only judges individual rationality, but the result of individual rationality may lead to collective irrationality (Wang 2009). At the very least, collective rationality at different levels needs to be judged by morality. Therefore, to judge the rationality of economic activities, the participation of moral capital in the form of subject consciousness is necessary.³⁸

First, moral capital in the form of subject consciousness determines the value orientation of the subject, thus determining his attitude towards labor and his labor enthusiasm. In this way, the value orientation of business activities can be determined. Moral capital in the form of subject consciousness reflects the subjective spiritual state and rational action of the economic agent. In case of the lack of such

³⁷ *Collected Works of Karl Marx and Friedrich Engels*, Vol. 4, People's Publishing House, 1995, p. 247.

³⁸ For the concept of rationality, different disciplines and schools have different definition. In my view, "real rationality," as quoted by Koslowski from Blaise Pascal, "it needs the tact of geometry and also the skills of wisdom" (see [Germany] Peter Koslowski, *Some Principles of Ethical Economy*, translated by Sun Yu, China Social Sciences Publishing House, 1997, p. 6). That is, the development of rationality needs both calculation and wisdom, and morality is the ultimate component. Or to say, rationality shall be understood from both economic and ethical perspectives.

moral capital, the benefits created by physical capital will drop dramatically, and at the same time, the construction and reproduction of other forms of moral capital, namely, the forms of rational relationships, of institutions and of moral products will be restricted fundamentally. The above mentioned subjective spiritual state and rational action of the economic agent intensively manifest as the spirit of responsibility, spirit of moral responsibility, and, especially, the spirit of social responsibility and justice of the economic agent. Once possessing moral capital in the form of subject consciousness, the economic agent will be highly capable of “reading” economic activities in order to review the relationship between himself, the subject of real communication and the economic subject. As Sison states, “It only means that such a person would never readily sacrifice his moral excellence as a condition to gain health, knowledge, social connections or profit (Sison 2005b).”

In the absence of moral capital in the form of subject consciousness, there will be no moral responsibility. The consequence is disastrous for individuals, collectives and even the world. From the Sanlu scandal to the financial crisis sweeping across the US, their domino effect has knocked over many innocent companies. Such examples have proved the ultimate and basic role played by moral capital in the form of subject consciousness. It is true that the Sanlu scandal and the financial crisis are not caused by individuals but groups; however, we must see that a group itself is a “personalized person.” Therefore, a company drifting away from morality will certainly become a “lost lamb”—it is eager to find the way home, but it is unable to do so. Therefore, proprietors must learn how to use morality to make money rather than using money to make money, just like “scoring a success indirectly rather than directly” (*Sun Tzu's Art of War*). In 2008, when talking about the Sanlu scandal, Wen Jiabao said, “An entrepreneur must be moral. Each entrepreneur should have the blood of morality flowing inside and should undertake social responsibility. Society needs companies following the requirements of law and morality (Wen 2008).” Morality determines the value orientation, attitude towards labor, production purposes and enthusiasm of laborers. In fact, it is just a matter of asking the question of “Who are being served?” After the question is answered, there will be market, profits and development. In the market, economic agents with and without consciousness will have totally different results, and thus their fates are totally different.

Second, moral capital in the form of subject consciousness also determines the utilization and efficiency of resources. An economic agent with highly developed subject consciousness will conduct business activities in accordance with the requirements of scientific development, environmental protection and human-centered operation. In this way, the utilization and efficiency of resources will certainly be improved, promoting the expansion of economic benefits. What is more, the cascade effect and even snowball effect created will greatly promote the accumulation and increase of physical, money and moral capital.

It is worth mentioning that the moral quality of business leaders actually demonstrates and guides the development and utilization of moral capital, for they are the examples that workers follow. In other words, leaders are important moral capital in the form of subject consciousness. In *The Moral Capital of Leaders*, Sison states, “Leadership is a two-way transformative and intrinsically moral relationship

between a leader and his followers. The two parties involved in a leadership relation—the leader and his followers—morally transform and elevate each other through their interaction. Thus, ethical leadership becomes the primary conduit through which not only persons, but also organizations for which these persons work, become ethical. Leadership nurtures personal ethics, allowing it to grow and configure an auspicious organizational culture (Sison 2005b).” Leaders lacking morality certainly do not have charisma and naturally cannot analyze and organize with the power of morality, let alone understand how morality penetrates into economic activities to play its unique roles and builds a virtuous external relationship. Therefore, in the scope managed by a leader lacking morality, moral capital can hardly (and even cannot) play its role in economic activities.

It should be pointed out that in “the form of subject consciousness,” “subject” means not only individuals but also economic units. Each economic unit, with its philosophy of economic behavior and moral consciousness, can certainly play roles the same as (and even better than) man as moral capital in the form of subject consciousness.

2.6.4 *The Form of Moral Products*

The physical carriers of moral capital are moral products, relying on which moral capital finally realizes its value, and therefore, it is “a key leap” to realize the accumulation and value expansion of moral capital. It can be said, “From commodities to money, as I said elsewhere, commodity value makes a break-neck leap. If it fails, it is the commodity owner rather than the commodity that will be broken.”³⁹ I once pointed out, “In recent years, Haier has gradually expanded its market share in the European market, and one of the reasons, as said by foreign dealers, is that the products of Haier meet the requirements and respect the habits of European consumers. For example, Haier washers have totally occupied the stores of some foreign dealers who only sold Japanese washers before. In the final analysis, it’s Haier’s responsibility for the interests of itself, of China, and of European consumers that expanded its washers’ market share in Europe and created more benefits and profits (Wang 2000b).” When moral capital turns into materialized morality, or moral products, it is transformed into physical capital, helping companies to build business integrity and reputation and encouraging companies to grow stronger. Many foreign companies, especially American and European companies, build their business in this way. Paine believes, “Many companies take actions to enhance their reputation, or respond actively to the needs and interests of customers,” and “executives of big businesses are talking about how to protect corporate reputation and brands, and entrepreneurs are talking about how to build reputation and brands (Lynn 2004).”

³⁹ In this case, the “break-neck leap” by Marx means commodities need to be sold to realize their value. Actually, moral capital in all forms is finally embodied in moral products, which will be meaningless without the “leap.” In this sense, I call the manufacturing of moral capital as “a key leap” of moral capital in the production sphere.

Undoubtedly, moral capital in the form of moral products is directly related with the survival of a company, and with the transformation from moral capital to physical and economic capital. Therefore, many companies take providing customers with quality, efficient, reasonably priced, marketable, and human-centered commodities as their core task to stand steadily in fierce market competition. In this sense, it is reasonable to call “products with human-centered design” as the products of “ethical entities” or moral products.

Moral products, as the unity of moral capital and economic capital, have an aspect as materials (economic capital is hypothesized in advance) as well as an aspect as symbols (moral capital is hypothesized in advance). Such unity makes moral products different from common products. Particularly, moral products as symbols can be repeatedly used, during which, its value will be increased infinitely rather than being decreased. In general, common products are produced for use in production and daily life. Compared with common products, moral products can not only meet human needs but also create new benefits. Moreover, moral products play the role of expanding the market share and accelerating capital and money flows, thus maximizing benefits. Then, how are moral products, the materialized form of moral capital, made?

First, during the process of production, companies must try to meet “human needs,”⁴⁰ which is the basic principle for product design and manufacturing. In the context of increasing economic globalization, companies will face consumers with various habits, preferences and even special requirements from around the world. This requires companies to research and develop products meeting the real needs of consumers based on the principle of “consumers first.”

Second, the spirit of putting the interests of consumers first must penetrate into all aspects of production. Products are “spiritualized” materials. On the one hand, “all products are designed based on the technological and cultural cognition and technical routes of man”; on the other hand, “all products are the materialization of the moral consciousness and quality of man (Wang 2000a).” Moral capital determines the existence of products, while products act as the carrier of moral capital.

In today’s society, which calls for environmental protection due to environmental degradation, moral products must be ecological. That is, at the same time of being useful, moral products must not be harmful to consumers as well as those of the human and social environment. When studying the issue of efficiency, Li Yin-ing raised some questions. “Can we say that social production is efficient no matter what we produce? If the products manufactured are harmful to human health and the environment, can we say social production is efficient? Can’t we improve efficiency without producing such products (Li 1995)?” Following his thought, we can ask, “Can products play its roles and create benefits once they are manufactured?” Products actually include materials, introductions as services and human-centered services. For example, some products, even with high quality, still fail to find a market due to poor after-sales services. It tells us that in this market, which is a

⁴⁰ In this case, human needs refer to the physiological, psychological and social needs of man.

battleground without gunfire, moral products are crucial for the existence and development of companies.

In conclusion, analyzing and expounding moral capital from the perspective of typology undoubtedly can deepen our understanding of moral capital. It can be considered as a search on the precondition of moral capital management. In four basic forms, moral capital plays different roles and functions differently. Moral capital in the form of institutions mainly penetrates economic institutions; in the form of rational relationships principally exists in the interpersonal relationships of the economic sphere;⁴¹ in the form of subjects mainly manifests in the economic agent; and in the form of moral products is primarily embodied in products. Therefore, the four forms of moral capital are the basic functioning forms of moral capital. Of course, the four forms are not completely separated. They are independently analyzed for the purpose of research. In fact, they penetrate into and affect each other. To be specific, from the perspective of the relationship among morality in the form of moral institutions (A), in the form of subject consciousness (B), in the form of rational relationships (C) and in the form of moral products (D), A guarantees the realization of B and C, B and C are the requirements for the optimal performance of A, C ensures the realization of D, and D is the embodiment and final outcome of A, B, and C. The four forms coexist in space and exist in sequence in time, which is a requirement for the virtuous management of moral capital. Just like the realization of truth is a process, the realization of moral capital is also a process, which I intend to analyze independently.

2.7 In What Sense Could Morality Become Capital?⁴²

After publishing my studies on the theory of moral capital, I heard voices of agreement as well as of disagreement. Some thought the existence of moral capital is groundless and impossible, while some thought the theory of moral capital, as a breakthrough of the binary opposition between moral capital as an end and moral capital as an instrument, had ultimately revealed the functions of effects of moral capital. I insist that the existence of moral capital is well founded. Denying the existence of moral capital is denying the economic functions and effects of morality, which means denying the reason for the existence of morality.

It is worth pointing out that the concept of “capital” in moral capital is not the classical concept of capital put forward by Marx, but the concept of “production element capital”—the concept of capital in a broad sense. It is not an analysis tool that reflects or criticizes some social institutions or economic relations; it considers capital as a kind of valuable productive resource and outlines the special roles

⁴¹ In this case, institutions are understood at the macro-, meso-, and microlevel, and do not only mean basic social institution at the macro-level.

⁴² Originally titled as The Eighth Study on Moral Capital, *Morality and Civilization*, Issue 6, 2011.

played by morality in the expansion of economic value. Then, in what sense could morality exist as a kind of capital?

2.7.1 Morality is the Soul of Human-centered Product Design

For an enterprise, its economic development or revenue growth largely depends on the design and quality of its products for which, as determinants of market share and any increase or decrease in revenues, products greatly affect the profitability of the enterprise. Furthermore, the design and quality of products are all subject to technological constraints, social culture and morality. In general, technology determines the applicability, practicability, durability and convenience of products; social culture influences the style and appearance of products; and morality defines the degree of human-centered design and intrinsic value of products. Among these three factors, morality plays a decisive role. The reason is that the value of products lies in how well they can serve people; therefore, the more their styles and functionality are designed according to human needs,⁴³ the more they are endowed with morality, and hence the more popular they will be. For example, in China, the world's largest cell phone market, which has undergone increasingly fierce competition in recent years, some cell phone brands can still dominate the market through their long-standing popularity and high market share. One of the reasons for this, aside from focusing more on research and development (R&D) in terms of functionality and style of their products, is that manufacturers also seriously consider consumer demand throughout the whole process of product design and manufacturing, ultimately injecting more morality into their products. The importance of morality can also be proved by the sudden collapse of famous brands like the dairy producer Sanlu. When the demands and safety of consumers are ignored, morality is abandoned, which will invariably lead the brand to ruin. It can be seen from the above that the market share of products largely hinges on the moral principles followed by manufacturers, and the moral content within their products.

2.7.2 Morality is an Important Factor to Shorten Socially Necessary Labor Time per Product Unit

During the process of product manufacturing, due to the variance of production technology and processes, especially morality contained in products, the socially necessary labor time, which determines the costs of similar products, varies. In the information age, the convergence of production technology and processes tend to be

⁴³ In this case, human needs refer to the needs of human beings as determined by their natural attributes and social attributes. For the former, human beings have specific product requirements due to physiological reasons, while for the latter, human social activities require products to be helpful in improving interpersonal communication and quality of life.

higher and higher in level and shorter and shorter in time. Therefore, how to shorten socially necessary labor time per product unit has become a key for corporate competition. Whoever successfully shortens socially necessary labor time per product unit will be the winner of market competition, thus creating benefits and establishing its position. The shortening of socially necessary labor time per product unit largely depends on the penetration of morality during the process of production. Taylorism management is effective in shortening socially necessary labor time per product unit and was thereby prized as the only scripture for at one time. However, the point is that the management mode essentially ignores and even destroys human nature. It not only destroys the enthusiasm, initiative and creativity of employees but also causes the tension and even opposition between employers and employees. Under such a management mode, in case of interpersonal friction, labor will always be emotionally unstable, psychologically unbalanced and negatively go-slow. Consequently, productivity is low, which means a low socially necessary labor time per product unit. As time goes by, such a kind of management mode that lacks morality will gradually be replaced by human-centered management modes.

In the context of modern mass production, the product manufacturing of any company is actually a social behavior; therefore, effective social collaboration is required to maximize socially necessary labor time per product unit. Obviously, it depends on the improvement of overall social moral quality. Francis Fukuyama once pointed out that whether a country or region can configure effective and rationally operated corporate organizations and business forms is the key element that determines its sustainable economic development. The formation of such corporate organizations lies on the “spontaneous social force” of the interpersonal trust in society (Fukuyama 1998). It is true that in the context of modern production, companies compete while cooperating with each other. However, to realize win-win situations, cooperation is necessary. Honest cooperation has the power of preventing the cost increase caused by information blockade, meaningless friction and the undoing of benefits given to each other. For this reason, some scholars have claimed, “Morality is important!... It can lower transaction costs and promote economic development (Zhang 1999).” It can be said that in the condition of modern production, morality plays an indispensable role in shortening socially necessary labor time per product unit and creating more profits.

2.7.3 Morality is the Source of Corporate Reputation

There is no doubt that reputation, as the life of a company, plays a decisive role for the expansion of the market share. To develop reputation, aside from technology and culture, morals like integrity and the sense of responsibility are also crucial. A customer buys the products of a brand out of trust. During the process of use, the increase of trust largely depends on the moral content of products and the fulfillment of after-sales service commitments. The positive correlation between corporate morality and corporate reputation has been proved by the prosperity and decline of a large number of companies around the world. When a company, on the one hand,

sincerely considers the real needs of consumers during product design and production, trying its best to meet such needs to maximize the benefits of consumers, and on the other hand, fulfills its commitments in sales and after-sales services, it will simultaneously build its reputation and expand its market share. On the contrary, if a company, no matter how famous it is, loses its morality in product design, production, sales or after-sales services, such as cutting corners, adulteration, exaggerating product functions, and making empty promises, its reputation will be seriously damaged. Consequently, its sales and profits will drop, which may ultimately lead to the collapse of the company. A world famous carmaker once experienced a trust crisis in China due to its lack of the sense of responsibility in after-sales service provisions. Events such as smashing the car with the hammer and dragging the car with the donkey happened successively in front of its consumers and the public. Its reputation was seriously damaged and its sales dropped sharply. Thanks to the great efforts of its headquarters, it finally went through the trust crisis at the cost of a long time and a lot of money. It can be seen that the sense of responsibility is the spiritual pillar of a company, and moral commitments and actions are necessary for the reputation building and maintenance as well as the creation of benefits and profits of the company.

2.7.4 Morality is an Important Factor to Activate Tangible Capital and Increase the Capacities for the Multiplication of Capital

The nature of capital lies in movement, through which value is created and incremented. In the process of movement, morality activates human and tangible capital to promote the increment of value. First, it accelerates the movement speed of physical capital. Through moralizing organizational institutions and arousing the potential of people, morality activates tangible capital, thus optimizing resource distribution and improving productivity. In a certain sense, the corporate institutional reforms carried out after the economic reform in 1979 is the embodiment of the moralization of corporate institutions. Through institutional reforms of property rights, the interest relationship between the state, companies, and individuals has become clearer, more just and more reasonable. This greatly aroused the enthusiasm of laborers and maximized resource utilization, leading to the rapid growth of economic benefits. Next, morality can be constantly materialized and accumulated in physical capital, and turns into capital stock in the form of corporate reputation and brand competitiveness, improving the value added of tangible assets. Finally, morality can drive technological progress and promote the commercialization of technical outcomes. As mentioned above, a responsible company surely has a good reputation, which helps expand its market share, thus increasing the value added of tangible capital and ultimately increasing profits. Finally, morality motivates human capital by improving the character, quality, and spiritual realm of the economic agent, thus becoming a capital source for the profit creation of companies and even

the increase of wealth of the whole society. Only laborers with active value orientation and excellent professional ethics can become the “primary element of production.” In this sense, moral capital and human capital are closely connected internally at both the theoretical and practical level (Wang 2011).

2.7.5 Morality Guides or Constrains Rational Consumption

In production and daily life, man consumes materials and spiritual wealth like culture. In the process of consumption, morality plays the role of guidance and constraint to prevent immoderate consumption and waste which may lead to ecological crises and environmental degradation. Rational consumption is moral. It mainly manifests as such consumption concepts and behavior as low-carbon consumption, moderate consumption, and ecological consumption. Low-carbon consumption is about minimizing consumption and emissions to protect the environment. Moderate consumption advocates rationally improving the consumption level, namely, it opposes excessive and luxury consumption and does not support parsimonious and hysteretic consumption. Instead, it tries to find a balance between the improvement of living standard and environmental protection. Ecological consumption opposes the predatory and destructive consumption, considering it as a kind of abnormal consumption that destroys natural and social ecology, which will ultimately hinder corporate profit creation and social wealth growth. Therefore, rational consumption is moral consumption that encourages the growth of social wealth. Only rational consumption under the guidance and constraint of morality could push forward production development and wealth growth.

It is worth pointing out that morality does not equal moral capital. That is, not all morals can be considered capital. First, only morals that are able to play economic roles and create benefits can be considered moral capital. In terms of the theories of capital, from the classical theory of capital of Marx, to the theories of capital in a broad sense, including the theories of human capital (Theodore 1990a), social capital (Zhao 1998) and cultural capital (Bourdieu 1997), our understanding on the concept of understanding has been changing. The British economist Marshall once said, “Capital is principally composed of knowledge and organizations... Knowledge is our most powerful engine of production (Marshall 1981).” The US socialist Nan Lin (2005, pp. 16–18) also pointed out that actions or choices have emerged as an important element of new theories of capital (Lin 2005). The concept of capital in a broad sense exists objectively. As Schultz, the father of the theory of human capital, writes, “If it can provide productive service with economic value, it’s a kind of capital (Theodore 1990a).” However, in various theories of capital in a broad sense, no matter the theory of human capital, or cultural capital or social capital, capital can only play its roles based on the creativity of living labor. In this sense, modern theories of capital actually follow the classical theory of capital of Marx. Since the value of capital derives from the value creation of living labor, all material and spiritual elements playing roles in the formation and increment of value are of the attributes of capital. Therefore, capital is the value of the materials and spirits

inputted in the production process to create profits or benefits—this is capital in general. Moral capital is the further expansion of capital in the broad sense or in the general theoretical basis; it is a special capital form separated from capital in the broad sense or capital in general. Non-physical moral capital is different from physical capital. It penetrates into human, knowledge, cultural, and social capital, and plays its special roles through capital in other forms. In capital in a broad sense or capital in general, no matter the attribute of labor contained in physical capital, or the spiritual elements contained in non-physical capital, as long as it is/they are related to the value end, then it/they can be considered as the value source of moral capital. In fact, scientific morality can play its roles in production by virtue of its special functions of guidance, regulation, constraint, and conciliation, thus promoting value expansion. Therefore, by forming the perspective of capital in a broad sense or capital in general, morality, as a spiritual element affecting the formation and increment of value, is of the obvious attributes of capital. For this reason, all moral elements that encourage living labor to create value added (profits), such as moral concepts, values, customs, norms, goodwill, and benevolence shall be considered as moral capital. The Chinese economist Luo Weidong once called the economic functions and effects of morality as moral capital. He thought that like capital, the economic functions and effects of morality participate in economic activities and create benefits. According to him, morality is not merely a spiritual element that promotes the maintenance and increment of value. Instead, it contributes to the creation of mutual social and economic benefits, thus working as an end that contains the rational spirits of society.⁴⁴ In this sense, all value elements reflecting the rational social spirits contained in physical and intangible capital can be included in the scope of moral capital.

Second, there is a logic boundary dividing morals as capital and morals known as capital. Putting forward and agreeing with the concept of moral capital does not mean believing in pan-moralism or the omnipotence of morality. The boundary of the field of productive activities is the boundary of the functions of morality. Historically, the concept of morality was closely connected with productive activities from the very beginning. With the development of human productive activities, modern capital has gradually developed new forms, such as human, social, cultural, and moral capital. Therefore, moral capital is the outcome of human productive activities. From the macro-sense of social development, considering morality as a kind of capital does not mean beautifying capital with morality, or turning morality into a hypocritical instrument for capital growth, but stressing that morality can and shall play its unique role in creating benefits and profits. In fact, while working as an instrument to create profits, morality also criticizes capital internally. In the modern society, the nature of capital is pursuing a surplus value or more profits, and human, social, cultural, and moral capital is helpful in realizing this purpose. On the one hand, capital always tries to take everything as an instrument to obtain surplus value or more profits; while on the other hand, capital configures man himself objectively through controlling resources, knowledge, culture, and morality in its unique way.

⁴⁴ “On the Economic Role of Morality”. *Journal of the Party School, Zhejiang Provincial Committee, CPC*, 1998, no. 1.

Improved rational spirits, in turn, internally constrain the negative effects of capital, criticizing capital internally. In this aspect, moral capital has more obvious value orientation than capital in other forms. Morality can not only serve capital as a rational instrument but also constrain capital internally with its rational orientation of value in order to avoid the irrational expansion of capital's nature and the immoderate expansion of "capital logic." However, to play the dual roles of moral capital, it is necessary to turn the status of morality from "within itself" to "for itself" during the process of capital movement, which requires the management of moral capital in real economic activities. Specifically, we need to organically combine the business activities and moral practice of companies in the market economy, forming the special ethical culture and core competitiveness of companies.⁴⁵

2.8 Why Does Moral Capital Exist?⁴⁶—Response to Questions

After putting forward the concept of "moral capital" in the early twenty-first century, in the following years, I made a series of studies on the basis of the existence of moral capital and its mechanism of action, which have attracted the attention from home and abroad. These studies were agreed, criticized or questioned by many, which injected new vitality to academic controversy and greatly promoted my academic research. In this section, I will correct mistakes concerning commonsense issues and further expound my understanding of moral capital.

2.8.1 *Moral Capital is Fundamentally Different from the "capital" Defined by Marx in Nature*

Some thought that "in the view of Marx, the nature of capital is not materials, but productive relations, and every pore of capital is dirty" and "according to Marx, the combinations of morality and capital is unimaginable (Yaoming 2012)." It is indeed unimaginable if we combine socialist morality or good morality with the capital understood by Marx. However, the fact of the matter is that the concept of moral capital is not merely a simple combination of morality and capital. What's more, as I have pointed out in my published papers, the "capital" in the concept of moral capital is not the "capital" defined by Marx. I once wrote in a paper, "The 'capital' in moral capital doesn't mean the classical capital employed and discussed

⁴⁵ As Sison said, "Without moral capital, capital in other forms is likely to turn from the advantages of a company into the source of its decline." Alejo G. Sison, *The Moral Capital of Leaders*, translated by Yu Wenxuan and Ding Ming, Central Compilation & Translation Press, 2005, p. 56.

⁴⁶ Originally published on *Philosophical Trends*, Issue 3, 2013; reprinted on *Chinese Social Science Digest*, Issue 7, 2013 and *Ethics*, Issue 6, 2013.

by Marx; it generally falls in the scope of capital.”⁴⁷ Social morality plays the roles of guidance, regulation, constraint and reconciliation in the process of production, promoting the expansion of economic value. Therefore, from the perspective of the general concept of capital, morality, as a spiritual element affecting the formation and increment of value, is of the attributes of capital. In other words, the concept of moral capital reflects capital as an element of production and is thus the concept of capital in a broad sense. It is not an analysis tool that reflects or criticizes some social institutions or economic relations as understood by Marx. According to Marx, capital is not materials; rather, it is the relationship between the capitalist class and the working class. Capital is about the economy, and more about economic relations. It presents the relation that capital exploits wage labor between the capitalist class and the working class. Differently, moral capital considers morality as a valuable productive resource and analyzes the special roles played by morality in the process of value expansion. This is a difference between the concept of moral capital and the concept of capital in the view of Marx, and the starting point to understand the theoretical space and logic boundary of moral capital. Economist Luo Weidong explicitly calls the economic functions and effects of morality as moral capital—“The economic functions of morality and capital are similar—they intervene economic activities and create considerable benefits. We can borrow Bourdieu’s broad concept of capital to call morality ‘moral capital’. From the perspective of social utility, moral capital is not only a spiritual element to promote the maintenance and increase of economic value, but also an orientation of value containing rational social spirits which can realize the win-win situations of economic and social benefits (Wang 2011).” It can be seen that moral capital is a kind of spiritual capital in the concept of capital in general, rather than an element of special capital, for the “capital” defined by Marx is not a synonym of morality. Therefore, moral capital does not fall into the scope of the capital criticized by Marx, but the scope of capital in general. Developing capital is not in conflict with developing morality, and the latter expands the stock of capital. Under socialism, only moral capital can be inputted in production to maximize the benefits of capital. In my opinion, there is no need to worry about if there will be conflict between moral capital and the nature of capital, for the nature of “capital” in the view of Marx and moral capital are different fundamentally; and capital in general is not in conflict with moral capital.

According to the above, we can say that moral capital is anything but the combination of morality and capital in the view of Marx. What is more, moral capital is not an artificial combination of morality and capital; instead, it is a phenomenon of economic ethics or the ethical economy.

In my opinion, denying the existence of morality using questions that I have answered in previous papers without an academic investigation and an analysis on my previous responses to questions is the reflection of typical academic dwarfism and academic fickleness. Presently, the concept of moral capital has been widely

⁴⁷ “Capital in general” means that the value of capital derives from the process in which living labor creates value. All material and spiritual elements playing roles in the formation and increment of value are of the attributes of capital.

applied to various theoretical research and economic agencies for the purpose of profoundly understanding and analyzing the modality of economic development. In fact, according to the theoretical development of the concept of moral capital, instead of discussing the existence of moral capital, what we should do is determine how to further improve, understand and apply the concept of moral capital and related theories. It is a consensus reached by economists from home and abroad that the content and forms of capital are diverse (including physical, money, human, and spiritual capital), and morality capital is the core or fundamental element of human and spiritual capital. Morality can undoubtedly play its unique role of value expansion in economic development, and its existence is well founded. It is written by a skeptic that “morality can only be understood as integrity and abiding the law in economic activities, as the human-oriented principle in production and management, or as public service activities in public relationships. It submits to and serves the end of profit maximization in economic activities (Yaoming 2012).” Is not the economic function of morality where “it submits to and serves the end of profit maximization in economic activities”? Since the answer is yes, how could we say morality has nothing to do with obtaining more profits? In fact, although “submits to and serves” is timidly expressed in “it submits to and serves the end of profit maximization in economic activities,” from this perspective, it shows that without morality, negative effects will surely accompany the process of obtaining benefits.

2.8.2 Moral Capital and Moral Capitalization are not Logically Connected

Some believe that the concept of moral capital is “the capitalization of morality at the level of simple conceptual generalization (Zheng 2012).” Let me be clear, “The concept of ‘moral capital’ does not mean interpreting morality as a kind of ‘capital (Zheng 2012),’” or capitalizing morality or equating morality with capital. As for the opinions that moral capital is “moralized capital” and moral capital is “naming capital with morality,” I want to say that they do not have anything to do with the concept of moral capital. I put forward the concept of moral capital based on the special roles played by morality in economic development and profit creation, which is completely different from moral capitalization. In fact, moral capitalization means equating morality with capital and considering morality as a resource and an instrument to make money. This, of course, is blasphemous of morality. Morality is a spiritual element of capital—it cannot form capital independently; in fact, it depends on material elements to play its roles in economic activities. Therefore, positive moral capitalization is a subjective conjecture. What’s more, as I mentioned above, capitalized morality is not the positive morality with which we are familiar.

Some scholars view “economics in a strict sense,” where “capital” can be “measured” and “book kept.” In my view, “moral capital” cannot be “measured” or “book kept.” I also believe that the concept of “capital” in “moral capital” is quite different from the concept of “capital” defined in “Marxist political economics in a strict

sense (Zheng 2012).” Here, I do not discuss whether there are differences between economics in a strict sense and economic in a non-strict sense, or between Marxist political economics in a strict sense and Marxist political economics in a non-strict sense. Instead, I would like to say that regardless of whether such differences exist or not, the “measurement” and “bookkeeping” of capital can be understood in a wider and deeper way in today’s society. Absolute quantitative “measurement” and “bookkeeping” only exists in traditional economics. In modern economics, we do not just think of capital as just concerning materials and numbers. It must contain cultural elements, and in a certain social conditions, it must contain political elements. From the perspective that the ownership and investment of capital cannot be separated from man, interpersonal relationship and the (moral) value orientation of the subject of behavior, we can say that capital, in some sense, is also a moral entity—capital can be interpreted from the angle of morality. It is due to this reason that skeptics modified “economics” and “Marxist political economics” by adding “in a strict sense.” In fact, in the process of economic development, people’s value orientation, and attitude towards labor actually reflect how their moral consciousness directly affects product quality and the fulfillment of after-sales service commitments, thus directly affecting the market share of products, capital flow, and profit creation. Therefore, morality is an indispensable spiritual element for the formation of moral capital and an important spiritual condition for obtaining more profits. It has been widely accepted at home and abroad that morality is certainly contained in human capital and spiritual capital. Since morality is the core content of human and spiritual capital, we can say the concept that “morality is a kind of capital” is unique and logically reasonable. Those who cannot see it are, at least, scientifically illiterate and lacking common sense—they only see superficial phenomena and simply have no idea about interdisciplinary research.

2.8.3 *Will the Concept of Moral Capital Cause Morality to Fall Victim to “Instrumentalization”?*

Some believe that the concept of moral capital will cause morality to fall victim to “instrumentalization.” I must clarify that analyzing the functions of morality does not mean morality is instrumentalized. Moreover, the “instrumentalization of morality” is a pseudo-proposition. To prove it, it is necessary to find out the reason for the existence of morality or the end of morality. Some will say that the end of morality is expanding people’s spiritual realm so that they will fulfill their moral responsibilities consciously. This is correct. However, how do we judge people’s spiritual realm? Why should we fulfill moral responsibilities consciously? I believe that if we do not think from the perspective of socioeconomic development, we cannot answer such questions. Therefore, morality exists because of its unique functions, including its functions in the economic sphere. There is no need to concern ourselves with whether morality’s playing of its roles is considered as using morality as an instrument, for its utilization is the primary precondition and purpose for its existence. Some ethicists considered instrumental rationality as the vulgarization

of moral instrumentalism, insisting that morality has nothing to do with obtaining more profits and stressing that “morality can only be human-based, rather than material based.”⁴⁸ In my opinion, they are just hypocritical moral theorists.

In fact, as I have said, the instrumentalization of morality is a pseudo-proposition. When morals are only used as instruments to make money, they are not good morals, but evil morals, or even pseudo-morals. Sacrificing morality to make money is an abnormal phenomenon existing temporarily in a particular social context. If morals are considered as the terms or means of transactions, it means morality or conscience can be exchanged or transacted, which is of course unimaginable. I think people with common sense would never think like this. Moreover, studying and expounding the economic value of morality has no necessary logical relation with the instrumentalization of morality. Academic common sense tells us that during the process of capital management, morality certainly plays its unique role as a “rational instrument.” However, instrumental rationality cannot be equated with the instrumentalization of morality. Confusing them by thinking that the concept of moral capital means morality is “tradable” is both illogical and vulgar.

2.8.4 Will Capital Make Money Unscrupulously, Causing Moral Leprosy due to the Emergence of the Theory of Moral Capital?

Some believe that due to the emergence of moral capital, capital will make money unscrupulously, causing moral leprosy. This is really a concern of some professional and unprofessional people. In fact, moral capital logically contains the requirements of morality. Therefore, the emergence of moral capital will not demoralize society; instead, at the time of regulating capital, moral capital will push forward the progress of society. Considering morality as a kind of capital does not mean beautifying capital with morality, or turning morality into a hypocritical instrument of capital growth. Moral capital plays dual roles in economic activities: on the one hand, it acts as an element or a means of capital to make profits; while on the other hand, it criticizes capital internally. The former role focuses on creating more profits or surplus value in a legal and moral way; the latter role means that capital, while pursuing surplus value, also configures man himself objectively. The improved spiritual and material quality will, in turn, internally constrain the negative effects of capital, criticizing capital internally. In this aspect, moral capital has a more obvious value orientation than capital in other forms. Morality can not only serve capital as a rational instrument but also internally constrain capital with its rational value orientation, making a capital investment rational and legal. Therefore, the emergence of moral capital will not make capital pursue profits unscrupulously, causing moral

⁴⁸ Actually, I put forward the concept of moral capital only for the purpose of stressing the morality's unique function of creating benefits and profits. Calling it as “being material centric” is far-fetched.

leprosy; instead, it stresses that capital investment cannot be completely separated from morality—capital must be moral.

2.8.5 Is not Morality as a Normative Value Requirement Objectively Necessary?

Some hold that “moral capital” is a normative value requirement, as “such normative value requirement, which is instrumental, considers ‘morality’ as a mere means. It is of probability without objective necessity, thus it cannot be considered as a general proposition—‘morality’ cannot become a value spirit in general (Yaoming 2012).” I cannot understand how this conclusion is derived. The fact is, from the perspective of scientific moral requirements, normative value requirements pursue and advocate generalization with objective necessity; they positively promote economic and social development. If normative value as an instrument aims at making “profits” and always puts “profits” first, “morality” itself is likely to be discarded. In this way, the relationship between morality and benefits is separated metaphysically. Some stress that morality is necessary for society, and it is human-based instead of material-based. Then, what does “human based” mean? In my opinion, it means promoting the development and perfection of man, which is “material based.” The development and perfection of man is “material based” in a broad sense. There is also an opinion that the bone of contention regarding morality (the functions and end of morality) is always the ultimate value of morality. The reason is that “man [serves] as an end” and “man [serves] as a means,” and the “end” and “means” included therein are not at the same logical level and value level. This is not a real scientific and philosophical view. If we still believe that the ultimate end of morality lies in “man as an end,” we are just repeating the opinion of Kant. The reason is that “man as an end” and “man as a means” are dialectically unified. The fact is that the ultimate end of morality is developing and perfecting man, during which, man certainly plays his roles sufficiently and reasonably as a means. “Ends” certainly include “means”; and “means” is certainly taken to realize “ends.” Ends without means and means without ends are all incomprehensible.

According to skeptics, to understand morality, “we must, first of all, grasp such basic concepts with transcendence as the ultimate value concern and the ultimate end of morality, human nature and human essence, or we will lose the soul and quintessence of morality (Yaoming 2012).” I believe these are empty words, which are theoretically groundless. What are the basic concepts of “transcendence” like the ultimate value concern, the ultimate end of morality, human nature and human essence? If we insist to consider “value rationality on the basis of absolute value ends” as “transcendence” or “morality,” such morality is entirely imaginary. In my view, to understand “transcendence,” we need to cognize the noumenon of morality under phenomena, and the noumenon is the “should-being” of man in social life. Based on the understanding of the “should-being,” we then cognize moral responsibilities, moral norms and moral practice; otherwise, theories about the so-called “transcendence” will be empty words lacking logical thought.

In conclusion, good morals can, by virtue of their special functions, help economic activities to obtain higher efficiency and more profits. For this reason, the existence of moral capital is well founded. As Gao Yaoming states in *Questioning the Concept of Moral Capital*, “in fact, history has proved that civilized social graces and self-disciplined moral value spirit can greatly improve efficiency” and “it’s rational to encourage companies to pursue profits in a moral way (Yaoming 2012).” During the process of economic development, there have been food safety problems, such as tainted milk powder, products with Sudan Red G, steamed buns dyed with colorant, and other contaminated foods; and quality problems with engineering projects like the occurrence of bridge, building, and road collapses. Facts have told us that unmoral behavior cannot help companies to improve efficiency and profits; on the contrary, once immoral behavior is uncovered, companies will face the risk of collapse. Therefore, it is necessary for companies to develop the sense of responsibility and the awareness of moral capital. Only under the constraint of morality can companies really realize their social responsibility instead of just talking about it, thus obtaining a high efficiency and more profits as well as promoting the rapid economic development of China. In short, we cannot superficially and rashly deny the existence of “moral capital.”

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On Moral Capital

Wang, X.

2015, XI, 266 p. 8 illus. in color., Hardcover

ISBN: 978-3-662-45543-2