THE FREEMAN

IDEAS ON LIBERTY

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PERSPECTIVE

Introduction

When I learned of the chance to edit a special issue of *The Freeman*, I did not hesitate with the topic I wanted to have explored, namely, how business is faring in our culture. I am slowly writing a book, *Business-Bashing, Why Commerce Is Maligned*, so my attention was already focused on the topic. For years I have found the phenomenon of business-bashing one of our world's greatest tragedies as well as paradoxes. In the following essays we explore how commerce is denigrated by many of the literati and why this is a mistake—and offer a better perspective on business and modern society.

A startling example of subtle denigration of at least big business is available in what film critic Vincent Canby says as a mere aside in his review of the 1992 "docudrama" movie *Hoffa*. Here is how Canby delivers his clever anti-big business punch: "Hoffa's ties to the Mafia not only cost the rank-and-file Teamsters millions of dollars but also set a pattern for corruption that tainted the entire labor movement. His is a quintessentially American story, for only in America did Big Labor become a big business to rival Big Business." (Vincent Canby, "Big Labor's Master of Manipulation," *The New York Times*, December 25, 1992, p. B1) Oddly, the bigness of much of business is in no small way due to the heavy restraints imposed on business by the anti-commercial mentality. This has made it extraordinarily difficult for small business to shoulder the legal burdens of holding the regulators at bay, of meeting their irrational and unjust requirements.

The assault on business does not come only from the intellectual left. Conservatives perceive the nature of human economic concerns no less unfavorably. Just notice *The New York Times'* conservative intellectual, A. M. Rosenthal, offering the following self-revealing comment: "In the 1992 campaign the Presidential candidates did their best to convince Americans that jobs, jobs, jobs were more important than freedom, freedom, freedom. Yes, the economy is essential and of course an economically weak American can't help the world. But those truisms became puffed up to a moral philosophy. They are neither moral nor a philosophy. Economic policy can cost or save jobs. Foreign policy costs or saves lives. History knows the difference, as do mourners." ("Zones of Freedom," *The New York Times*, December 25, 1992)

This glaringly ignorant remark is illustrative not only of the flippancy pundits are licensed to perpetrate but also of what ails some conservative thinking. We here witness the "private vice, public benefit" outlook that has characterized much of it in modern times. The view has it that economic considerations for human beings are necessary but by no means morally significant. Jobs are not ethically important; life however is. Never mind that jobs are one of the main factors that make life possible for human beings. A public policy that stifles our economic efforts is as vicious, as vile as one that stifles democracy and freedom of speech. All these are aspects of a promising human community life.

Unfortunately prevailing political ideologies demean economics as dealing with something lowly, not with the proper, moral, or noble. The contributors to this issue do not share this perspective. Their articles should shed some light not only on the role of commerce and business in our lives, but also on what happens to a culture when that role is systematically denigrated.

— TIBOR R. MACHAN
Auburn University, Alabama

A Harmony of Interests

A man who criticizes the conduct of business affairs and pretends to know better methods for the provision of the consumers is just an idle babbler. If he thinks that his own designs are better, why does he not try them himself? There are in this country always capitalists in search of a profitable investment of their funds who are ready to provide the capital required for any reasonable innovation. The public is always eager to buy what is better or cheaper or better and cheaper. What counts in the market is not fantastic reveries, but doing. It was not talking that made the "tycoons" rich, but service to the customers. . . .

Under capitalism the acquisitiveness of the individual businessman benefits not only himself but also all other people. There is a reciprocal relation between his acquiring wealth by serving the consumers and accumulating capital and the improvement of the standard of living of the wage-earners who form the majority of the consumers. The masses are in their capacity both as wage-earners and as consumers interested in the flowering of business. This is what the old liberals had in mind when they declared that in the market economy there prevails a harmony of the true interests of all groups of the population.

—LUDWIG VON MISES
"The Economic Foundations of Freedom"

Aristotle on Self-Love

Therefore the good man should be a lover of self (for he will both himself profit by doing noble acts, and will benefit his fellows), but the wicked man should not.

—ARISTOTLE
Nichomachean Ethics 1169a12

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The Social Responsibility of Corporations and How to Make It Work for You

by John Hasnas

Are you looking for a promising new vocation? Tired of the humdrum routine of life as an investment banker, corporate attorney, or electrical engineer? Want to get in at the ground level on a field with unlimited growth potential? Then you should consider a career as a business ethicist.

Wait a minute. A *business ethicist?* Aren't they the butt of all those jokes? You know, "I looked up the word oxymoron in the dictionary and it said 'see business ethics.'" Or "One undergraduate says to another undergraduate, 'I just signed up for Business Ethics 101.' The other responds, 'It must be a short course.'"

Well, after years of being subjected to this derision, business ethicists are finally laughing all the way to the bank. For the business ethics business is booming. Since 1990, there have been approximately 100 substantial corporate contracts for outside ethics consultants each year, with about 25 to 30 major companies spending more than $50,000 and five spending more than $1 million. Ethicists can make from $25,000 to $150,000 a pop performing ethical audits of corporations and from $1,500 to $4,500 a day running ethics training programs. As Timothy C. Mazur, a veteran ethics consultant, has expressed it, "Our market has just exploded. All of a sudden huge companies need ethics training fast." Before too long, he adds, he and his fellow ethics consultants "will be driving BMW's instead of Honda Preludes."[1]

What accounts for this rash of corporate interest in ethics? Have hard-boiled, practical-minded executives suddenly seen the light? Has the Age of Aquarius finally dawned? Or is there a more mundane explanation? To suggest that the latter may be the case, let me tell you a story. I'll call it "A Brief History of the Social Responsibility of Corporations."

Before beginning, I should say a word about what this phrase means. To claim that corporations have social responsibilities is to claim that corporations have moral obligations to expend funds for socially beneficial purposes even when such expenditures have not been authorized by the stockholders and are not in the financial interest of the

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corporation. Thus, in telling a story about the social responsibility of corporations, I am not discussing either cases in which the stockholders have specifically authorized the expenditure of funds for social purposes, e.g., non-profit corporations such as the Red Cross or the Nature Conservancy and for-profit corporations in which the stockholders vote for "socially conscious investing," or those in which such expenditures are made in the belief that they will increase the firm's profitability, e.g., through the creation of customer goodwill. Rather, I am discussing the claim that corporations are obligated to make such expenditures when neither is the case.

A Story

Once upon a time, it was believed that corporations had no social responsibilities. This was because corporations were viewed as arrangements by which one group of people, the stockholders, advanced capital to another group, the corporate managers, to be used to realize certain specified ends. Under this view, the managers were "agents" of the stockholders. They were empowered to manage the money advanced by the stockholders, but were bound by their agency relationship to do so exclusively for the purposes delineated by their stockholder principals. The existence of this fiduciary relationship implied that managers could not have an obligation to spend corporate funds in ways that had not been specifically authorized by the stockholders regardless of the social benefits that could accrue from doing so.

Of course, both the stockholders and the managers were free to spend their personal funds on such projects, but when the managers were functioning in their corporate capacity, they had a duty not to divert corporate funds away from the purposes expressly authorized by the stockholders, which were usually limited to maximizing the return on investment. Therefore, there could be, as Milton Friedman has expressed it, "one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it . . . engages in open and free competition, without deception or fraud."[2]

This view, known as the stockholder theory of corporate responsibility, was supported by a very simple moral argument. The stockholders advanced their money on the condition that it be used in accordance with their wishes. If corporate managers accepted the money on this condition and then proceeded to spend it to accomplish social goals not authorized by the stockholders, they would be spending other people's money without their consent, which is wrong.

As you may imagine, this was not a very popular theory in academic circles. If corporations had no social responsibilities, what would there be for business ethics professors and consultants to do? This was clearly an intolerable situation which demanded a remedy. Fortunately, one was at hand in the form of the "stakeholder theory."

The stakeholder theory was originally a theory of *management*. It held that effective corporate management required "simultaneous attention to the legitimate interests of all appropriate stakeholders."[3] A stakeholder is anyone who has "a stake in or claim on the firm," and has been defined to include "those groups who are vital to the survival and success of the corporation,"[4] i.e., its stockholders, customers, employees, suppliers, management, and the local community. Thus, the stakeholder theory, as originally conceived, contended that a corporation's financial success could best be achieved by giving the interests of all stakeholders equal consideration and adopting corporate policies which produce the optimal balance among them.

As a management theory, the stakeholder approach implies no social responsibilities for corporations. It simply describes a method for improving corporate performance. However, if it could be converted from a management theory to an ethical theory, if an argument could be found that showed that corporate managers have a moral obligation to act in the interest of stakeholders other than the stockholders even when this would not financially benefit the firm, then it would become a true theory of corporate social responsibility. This is precisely what happened.

A Plot Twist: Staking a Claim to Autonomy

The argument that the stakeholder theory embodied the ethical obligations of managers was based upon Kant's principle of respect for persons. This fundamental ethical principle holds that every human being is entitled to be treated not merely as a means to the achievement of the ends of others, but as a being valuable in his or her own right, as an end in himself or herself. But to respect someone as an end is to recognize that he or she is an autonomous moral agent with free will and desires of his or her own. Thus, the principle of respect for persons requires respect for individual autonomy.

The stakeholder theorists applied this to the world of business by claiming that corporations are bound to respect this principle as much as anyone else. Thus, corporations may not treat their stakeholders merely as means to corporate ends, but must recognize that as moral agents, all stakeholders are entitled "to agree to and hence participate (or choose not to participate) in the decisions to be used as such,"[5] and, therefore, that they are entitled to "participate in determining the future direction of the firm in which they have a stake."[6] But, because it is impossible to consult with all of a firm's stakeholders on every corporate decision, this participation must be indirect. Therefore, the firm's management has an obligation to "represent" the stakeholders' interests by giving each equal consideration and managing the corporation so as to achieve an optimal balance among them. As a result, corporate management has a fiduciary relationship not only to the stockholders, but to all the stakeholders, and may often be required to sacrifice the stockholders' interests to those of other stakeholders.

This argument was just what the doctor ordered. It not only derives corporate social obligations from the libertarian principle of respect for persons, but these obligations are so amorphous (What does it mean to "keep the relationships among stakeholders in balance,"[7] anyway?) as to guarantee the need for countless academic articles to explain precisely what they required. In fact, its only drawback is that it is clearly unsound.

There is nothing wrong with the claim that corporations are morally bound to respect the autonomy of their stakeholders, but this implies neither that stakeholders are entitled to a say in corporate decision-making nor that the corporation must be managed in their interest. The fact that the stakeholders must agree to be "used" by the corporation implies only that no stakeholder may be forced to deal with the corporation without his or her consent. Although this certainly means that corporations are morally obligated to honor the contracts they enter into with their customers, employees, suppliers, and managers and to live up to any representations they freely make to the local community, it does not mean that these stakeholder groups are entitled to more than they freely bargained for.

Employees, suppliers, and customers negotiate for and autonomously accept wage and benefit packages, purchasing arrangements, and sales contracts, respectively. If managers were to break the agreement they have with the stockholders to maximize return on investment in order to provide one or more of these groups with benefits in excess of those they freely accepted, they would not be respecting the autonomy of these groups, but violating that of the stockholders. Thus, far from being entailed by the principle of respect for persons, the stakeholder theory requires its violation.

A Happy Ending

The fact that the stakeholder theory violates its own fundamental premise did not hinder its acceptance, however, for it was a fallacy whose time had come. For the last two decades, it has simply been ideologically unacceptable to argue that corporations could be ethically bound to "selfishly" pursue profit or that it is wrong to force those wealthy enough to purchase stock to expend funds to benefit downtrodden workers, local communities, or society in general. The stakeholder concept was so popular that in the late '70s and early '80s several corporations voluntarily amended their charters to permit managers to base their business decisions on their effects on groups other than the stockholders. This was followed by the advent of corporate "constituency" statutes which permitted (and sometimes required) corporate managers to consider the interests of employees, customers, suppliers, and communities in making business decisions. Although originally adopted as anti-takeover, rather than ethics, measures (the statutes allowed corporate management to escape its fiduciary duty to stockholders to accept generous buy-out offers by declaring that doing so would not be in the interests of one or more of the other stakeholder groups), these statutes have, to date, enacted the stakeholder theory into law in 29 states.[8]

The triumph of the stakeholder theory had a profound effect on the way corporations were viewed. The widespread acceptance of the idea that corporations had ethical obligations to serve the interests of the wider society made it possible to ascribe moral characteristics to corporations themselves, rather than merely to the individuals who comprise them. Corporations which met their obligations were described as having a good corporate character or being good corporate citizens; those that did not, as socially negligent. It now made sense to speak in terms of corporate culpability.

This had a major impact on the Federal Sentencing Guidelines for Corporations which were designed to revise and regularize the fines that could be assessed to corporations convicted of violating federal law. The Guidelines, which took effect in 1991, drastically increased these fines above previous levels, but allow for significant reductions for corporations that have demonstrated "good citizenship" as determined by a "culpability score." To receive a favorable culpability score, a corporation has to have an "effective" program to discourage illegal behavior by the firm's employees; i.e., an ethics training program.[9] The financial difference this can make is so great that one expert has stated that it would be professional malpractice for corporate counsel to fail to recommend such a program.[10]

Now, when we consider that it is ethicists who supply these programs, we may be led to suspect that it is the adoption of the Federal Guidelines that is primarily responsible for the current influx of ethics consultants to BMW showrooms. This may explain why the Guidelines are sometimes referred to as the Business Ethicist Full Employment Act. Unfortunately, it also suggests that the surge of corporate interest in ethics may not herald the Age of Aquarius after all, but is just one more example of businesses looking to their financial interest. However, like all stories that begin with "Once upon a time," this one has a happy ending. For after years of suffering cruel jokes as the ugly ducklings of the academic community, business ethicists have finally blossomed into the swans of the corporate world.

And they lived happily ever after. □

1. Rorie Sherman, "Ethicists: Gurus of the 90's," *National Law Journal*, January 24, 1994, pp. 1, 30–31. This article is also the source of financial data in this paragraph.

2. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 133.

3. Thomas Donaldson & Lee E. Preston, "The Stakeholder Theory of the Corporation: Concepts, Evidence, Implications," *Academy of Management Review* (forthcoming).

4. *See* William M. Evan & R. Edward Freeman, "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism," in *Ethical Theory and Business*, pp. 97, 100. (Tom L. Beauchamp & Norman E. Bowie eds., 3d ed. 1988).

5. *Ibid.*

6. *Ibid.*, p. 97.

7. *Ibid.*, p. 103.

8. For a useful discussion of these statutes, *see* Eric W. Orts, "Beyond Shareholders: Interpreting Corporate Constituency Statutes," *61 George Washington Law Review 14* (1992).

9. For a useful discussion of the Guidelines, *see* Ilene H. Nagel & Winthrope M. Swenson, "The Federal Sentencing Guidelines for Corporations: Their Development, Theoretical Underpinnings, and Some Thoughts about Their Future," 71 *Washington Law Quarterly 205* (1993).

10. *See* Michele Galen, "Keeping the Long Arm of the Law at Arm's Length," *Business Week*, April 22, 1991, p. 104 (quoting Professor John C. Coffee of Columbia University Law School).

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Communitarian and Individualist Ideas in Business

Aeon J. Skoble

One of the hottest controversies in social philosophy these days is whether communitarianism or individualism is the more appropriate theory for describing the relationship between the individual and society. The dispute reaches beyond academic social theory to have a direct impact on beliefs and practices in the business world. The split on this issue in the academy is mirrored in the beliefs and practices of the business world. This is unfortunate. It is unhealthy for the business world and has potentially damaging consequences. If communitarianism becomes the prime mover of social thought, it will become increasingly difficult to sustain a modern economy.

First, what are individualism and communitarianism? Broadly speaking, we might say that individualism is the view that each individual (but only individuals) has, and should regard himself as having, moral significance and inalienable rights. Communitarianism is the view that communities also have moral significance and certain rights. Let us add to this initial distinction with some history and some precision.

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The idea that individuals possess inalienable rights goes back in American social thought beyond the founding of the Republic to the struggle for independence, and in English social thought at least a hundred years earlier to John Locke. It has its roots in the Magna Carta of the thirteenth century. The result of these developments was that individual human beings, not kings or the government, came to be regarded as the most valuable.

Locke's *Two Treatises of Government* represented a direct theoretical challenge to the idea that kings ruled others by divine right. According to monarchist theory, the king and the land are one, and no one has any rights not granted by the king. Since the king is the personification of the social order, no one can dissent from the social order without affronting the king, and therefore the land itself. Locke's early individualism argued for the personal sovereignty of each over his own life, liberty, and property. In Locke this personal sovereignty is based on the idea that the rights of each are of divine origin, but not all individualist theories are based on this premise. Many modern individualists argue that rights are a useful social construct: respecting rights produces the greatest benefits overall. Still others derive a theory of individual rights from arguments about the necessity for personal freedom and autonomy for self-actualization and growth.

The Communitarian Challenge to Individualism

The essence of communitarian thought is that the community can be thought of as a bearer of rights, or at least as the holder of interests, to which an individual's interests may have to be subordinated in some cases. Marxist communism and socialism are clear examples of this idea, although modern American social thought is full of additional examples. Like tribalism, monarchism is an early and common example of a communitarian theory, but some communitarians are sincere democrats. Modern American thought does, indeed, contain elements of different strands of communitarianism (although whether this is a virtue remains to be seen). For instance, the idea that we should all be required to sacrifice a portion of our income in order to provide for common goods such as roads, schools, and farm subsidies—even the childless pedestrians who are consumers of farm products—is justified in terms of the "good of society." Military conscription is another such idea.

As with individualist social thought, there are many different versions of communitarianism. Although they differ in regard to, say, the relative values of the community's interests versus the individual's interests, or the nature of the community, they share the fundamental premise that communities have rights and interests which may occasionally override individual rights or interests.

Commerce: Communitarian or Individualist?

There are several aspects of the commercial world, some of which seem to rely on or demonstrate communitarian ideas and some of which seem to be based on individualist ideas. For examples let's look at two of the fundamental structures of the business world, the corporation and the entrepreneur. The corporation is a highly structured, hierarchical organization. It is typically, although not necessarily, owned by large or small groups of investors. The investors provide financing, and employ a group of executives to run the company. The top-rank executives in turn hire managers and supervisors for the various departments essential to the company's function. The company might have separate departments responsible for production, research, sales, accounting, and so forth. The result is a structured web representing the division of labor.

Each employee is accountable to someone higher up in the chain of command, right up to the chief executive. The chief executive, of course, is accountable to the shareholders. Each employee plays a particular role in the working of the corporation which aims at the overall success of the company. Like a football team, the successful corporation requires the best possible contribution from each worker, but no single employee can carry the team. Individual success is futile if the corporation fails. Just as a star player's efforts are wasted when his team has a losing season, a single employee might be the best accountant in town, but that won't matter if the company can't sell its product.

Each contributes to the good of the whole—individual achievement is valuable only to the extent that it contributes to collective success. Corporatism as a commercial mode parallels communitarianism as a social theory. The idea of being a "team player" in the corporate hierarchy parallels the idea of contributing to the "common good" in social theory. In communitarian social thought, each person is supposed to subordinate individual preferences (to varying degrees) to the good of the community, and indeed, frame his or her conception of self-interest in terms of service to the community. In the corporation, each employee is supposed to think of individual needs in terms of the needs of the company.

Of course, being employed at a corporation is a voluntary arrangement; being subject to the laws of the government isn't. I'm not suggesting that corporations *are* communitarian governments. There is simply a structural parallel between the way communitarian social thought and corporate commercial institutions depend on the idea of subordinating one's individual preferences to the common goal. In both cases, risks and benefits are pooled. This might lead corporate leaders to conclude that communitarianism is as appropriate in the political realm as corporate structures are in the commercial realm.

The Entrepreneur

Entrepreneurship is another key institution in the business world. Typically, the entrepreneur is conceived of as the bold, individualist go-getter, so it will come as no surprise that there is a parallel between the role of the entrepreneur in the world of business and individualist social theory. Unlike the corporation, the entrepreneur assumes the risks and reaps the benefits of the enterprise. In some cases the entrepreneur has a new concept, good, or service to offer which propels the venture; in other cases he or she simply offers a more efficient (or otherwise more attractive) way of performing an existing service. In either case, the entrepreneur stands for his or her own vision and gambles on his or her own ability to succeed. Like the theoretical individual of political theory, the entrepreneur makes his or her own decisions in accordance with his or her own judgments for the benefit of the enterprise.

Naturally, the entrepreneur will frequently find it advantageous to cooperate with others in order to secure some mutually beneficial end. Entrepreneurship as a practice cannot rule out cooperative ventures; indeed it may often depend on them. But this fact is not only mirrored in individualist political theory, it is presupposed by individualist political theory. For placing primary emphasis on the rights of the individual does not besmirch the value of social cooperation, and individuals will frequently find it mutually advantageous to cooperate in the pursuit of some shared goal.

What distinguishes cooperative social ventures in an individualist theory from cooperative social ventures in a communitarian theory is that in an individualist setting, all such ventures are entered voluntarily on the basis of a perceived mutual benefit, whereas in a communitarian setting, some arrangements might be imposed "for the good of society" which do not serve a particular participant's interests. The parallel in business is that entrepreneurs do things because they think it would be best, while corporate employees do things because they have been ordered to do so for the good of the company.

Individualism and Corporate Commerce

Clearly, though, not everybody in a modern economy can be an entrepreneur. There are some enterprises that are more efficiently operated as corporations. The business world needs both entrepreneurship and corporatism. But corporate commerce must beware of its affinities with communitarianism.

In short, the business world would be better off embracing individualism wholeheartedly, and rejecting communitarianism. Even though corporate structures can be interpreted as microcosms of communitarianism, they need not be. Indeed, were communitarian ideas to become predominant in our legal system, this would undermine one of the prime energizers of modern corporate commerce, namely, the initiative or choice of all corporate participants to be part of the enterprise. If, as communitarianism implies, the corporation must be an arm of public policy, it will function grudgingly, as do all who work in a condition of involuntary servitude.

What can corporations gain from embracing individualism? Business organizations certainly will continue to require the same hierarchical structure and the emphasis on team effort. But they can make changes in the way they regard employees. Managers would do well to foster an atmosphere of individualist cooperation, thereby encouraging team effort with the motivation of mutual benefit. Obviously, if the corporation does not do well, the people in the corporation do not do well. But that does not mean that management policy ought to reduce employees to cogs in a machine. A smart manager would treat each employee as an individual whose efforts are crucial to an enterprise the success of which benefits that employee. It might be impractical to treat every corporate employee as an entrepreneur, but attempts to encourage employee innovation and excellence might be enhanced by just a bit of this approach.

Furthermore, the more the corporate world endorses a theory which subordinates individuals to groups, the more society as a whole will be encouraged to subordinate both corporations and entrepreneurs to vaguely defined community interests that may benefit no one and actually be injurious to the businesses involved.

Some social critics, such as Amitai Etzioni, Michael Lerner, and, most famously, Ralph Nader, have proposed that corporations ought to be subjected to public control for the common good. If such constraints were widely accepted, corporate executives would swiftly find that business had taken a turn for the worse. Besides being the social theory that is most conducive to individual human well-being, individualism is the social theory that best serves the business world, corporate as well as entrepreneurial. □

DUTY AND INTEREST

by Douglas J. Den Uyl

It is often argued that we are in desperate need of courses or training in business ethics because business is an area more devoid of ethics than other endeavors. Indeed, it is usually assumed that there is something *fundamentally* at odds between business and ethics. Business must be tamed by ethics because by itself business has no natural affinity with ethics—it may even be antithetical to ethics! Our point in this essay, however, is exactly the opposite. Business and ethics are allied with each other at the fundamental level and only conflict at the fringes.

Aristotle held that the morally perfect individual was one in whom knowledge of what one *ought* to do was fully integrated with what one *desired* to do. If one knew what the good was and desired something else, that was a sign of moral imperfection. By the same token, if one simply did what one wanted without giving any thought to what was good, that too was a sign of imperfection. The morally good person, we might say then, thoroughly blends his or her desires with what is morally good. This could be described as the coincidence of duty and interest.

The sorts of philosophers that have dominated our own age by contrast have seen the interested and the moral to be either in inherent or likely conflict. Immanuel Kant, for example, tells us that the presence of interest lessens or destroys the moral quality of an act. J. S. Mill worries about the

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narrowness of self-interest preventing one from acting for the good of the whole. And even Adam Smith has qualms about the connection between self-interest and social well-being.

All these more abstract worries about morality and desire would certainly have an impact upon Business Ethics. For if the two really are in necessary conflict, it looks as though business—which is apparently grounded in interested pursuits—will be hard pressed to incorporate anything like ethical duty.

There is the possibility nonetheless that the very essence of business may just consist in this Aristotelian ideal! For that to be the case, duty and interest must not only be harmonized such that what is in one's interest also turns out to be one's duty, but also that in being subject to a certain obligation one is thereby furthering one's interest. While other professions, e.g., law and medicine, may suggest (undoubtedly somewhat naively) that the interests of others (the patient or client) take precedence over one's own, business turns out to be essentially rooted in the proposition that our own interests and the interests of others are co-extensive.

The Convergence of Duty and Interest

The rudiments of our point are found in the simple act of trade or free exchange. With respect to the interest side of the issue exchanges are presumably in the interests of all parties or they would not take place. The act of trade seems to leave out, however, the notion ordinarily associated with "duty," namely of there being some sort of moral obligation to others. If it were the case, however, that one made exchanges that were not only in one's interest but which one had an obligation to others to make, then duty and interest would be harmonized. As strange as it may at first seem, the modern corporate manager is in the position of having both the duty and interest to engage in trade.[1]

As a fiduciary of the corporation a manager has a duty or obligation to act in the interests of that corporation. Although it may seem as though there is now the same old possibility for conflict between one's interest and one's duty if what would be good for the corporation would not be so good for oneself, this perception is largely illusory in business. Indeed, if managers come to see their personal business interests as being in conflict with the business of the corporation, then we would describe the corporation as badly managed. To insure against this sort of conflict, corporations offer equity and other incentives to tie one's wealth to that of the corporation. In a business environment it would actually be strange to think of the corporation's interest as taking precedence over that of individual (or vice versa). As a business enterprise, the assumption is that everyone involved is interested in personal wealth maximization and corporate life (as opposed to, say, self-employment) is the mode chosen to that end. Consequently, there is no prior or essential split between self and corporate interests or obligations.

Perhaps one is inclined to object that numerous cases of conflicts of interest between managers and corporations can and do occur. A manager may wish, for example, to give some relative the contract for supplies rather than the firm with the highest quality at the lowest price. Or perhaps one is thinking of the conflicts that are sometimes said to exist between managers and stockholders (owners) over such matters as the sale of the business in a "hostile" takeover. It is not our claim here that such conflicts cannot or do not take place. Rather, our claim is that the legal conception of a "fiduciary," while perfectly appropriate to business law, can mislead one when it comes to understanding the essential character of business.

In law, a situation is corrected or operating normally when the fiduciary fulfills his or her obligation, whatever the personal interests involved. In business, by contrast, a situation is normal only when one's interest is engaged. If one is simply doing one's duty, a potential (if not actual) management problem exists. The sorts of conflicts that may arise in the business world are not solved, in other words, by the appropriate fulfillment of a role. They can only be solved when the appropriate actions are motivated by personal commitment. In business one does not make commitments to obligations, but rather one's obligations grow out of one's commitments. A business, therefore, has the appropriate managers when those managers see their own best opportunity for maximizing their wealth as being co-extensive with the work they are doing.

Disrupting the Harmony

Now there are many factors that serve to undermine this happy coincidence of duty and interest in the modern world. Some of these, we must admit, may be generated from the quasi-bureaucratic nature of the large modern multinational corporation. Yet the most significant of these factors arise from the present political climate and the social/moral claims used to support it. In business ethics the issue is put most clearly in the debate over corporate social responsibility.

The controversy centers around Milton Friedman's claim that corporations have no social responsibility beyond wealth maximization within the "rules of the game."[2] This is thought to be too limited and too economically centered a view for most writers in the field, and thus they would speak of a more expanded sense of social responsibility for business.[3] Businesses are being asked to consider the good of society as a whole, or certain aspects of society (sometimes called these days "stakeholders"), as being of equal or greater consideration than "the bottom line." Yet what can be said for Friedman's position is that it, rather than the alternatives, best serves the harmony of duty and interest as we have described it here.

Friedman's argument is quite simple: it would violate one's contractual obligations to the owners (stockholders) if one pursued anything other than wealth maximization, for that is precisely what managers were *hired* to pursue. So as managers seek profits for the firm, they are both satisfying an obligation to others as they achieve what is to their own benefit. Moreover, they are doing so in a *community* of wealth pursuers (i.e., among others doing likewise).[4] It must be the case then that to oppose Friedman's position is to claim that we ignore or otherwise diminish the pursuit of profits for the sake of other "responsibilities." In doing that, however, the harmony between duty and interest that is established within the community of wealth pursuers would be undermined in at least five ways:

1. By overriding the contractual relationship in favor of vague, limitless, and all-encompassing "obligations," there is no certainty that one has satisfied one's obligations in a business context and thus little chance of harmonizing one's interest with them.
2. With the contractual model, one's obligations flow from one's commitments; but in the corporate social responsibility model one's commitments are to be defined by one's obligations implying, as we noted above, the diminishment of interest.
3. The idea of a social responsibility beyond that of wealth maximization necessarily subordinates the latter to the former and thus, at least temporarily, drives a wedge between what the individual is in fact pursuing and what he or she ought to be pursuing.
4. Indeed, the additional "obligations" suggest the moral inferiority of the pursuit of wealth, so that if one takes a greater interest personally in the pursuit of wealth within a business context one is necessarily at odds with what one is supposed to be interested in morally.
5. Corporate social responsibility undermines the individualism implied by the harmony of duty and interest by conceiving of the corporation as the locus of moral responsibility rather than the individuals who jointly compose it.

These reasons, and undoubtedly others, should indicate how current conceptions of corporate social responsibility undermine not only the ideal harmony we have been discussing, but also the very ethos of business itself. For we can now realize that what constitutes a *business* context or relationship is one where the production or pursuit of wealth is central both morally and operationally. Corporate social responsibility decentralizes the role of wealth in business in favor of other ends, and in this respect undermines the very ethos of business.

One might say in response to all this, "Who cares about the harmony anyway? Isn't it the case that morality essentially is a conflict between what one wants to do and what one ought to do. And moreover, don't such things as pollution, poverty, unemployment, and illiteracy take precedence over wealth and the greed that comes with its pursuit?" These are complex questions with arguable underlying assumptions. They cannot be fully answered here. But if one is open to the idea that harmonizing duty and interest might be a good thing, then perhaps one might be willing to consider approaches to social problems that are more in accord with maintaining that harmony. Much has been written about various market-oriented approaches to all these issues—approaches that provide an alternative social vision to the politically dominated one espoused by advocates of corporate social responsibility. To admit that poverty and pollution are problems is to say absolutely nothing about the appropriate way to address them.

What is more pertinent to our point is the basic question of why we should care whether there is any coincidence between duty and interest in the first place. As we have noted, business does in fact approximate the ideal. But why should one care about the ideal itself? The reason is that it is within this harmony of duty and interest that one finds the basis for the moral legitimacy of business itself. It is not because of the benefits provided us that business is morally justified, nor is it because business "behaves" itself in appropriate ways. Business is at root morally legitimate because the good it seeks (wealth) is appropriate for human existence and can be sought without any fundamental conflict between what is good for oneself and what is appropriate conduct towards others. To insure that both are in harmony requires that we do nothing to threaten the centrality of wealth which makes that harmony possible.

Is wealth then the highest or only good? Is its pursuit constrained by nothing? Wealth is neither the only or highest good in human life. It is and must be, however, the central good in *business*. That means that when it comes to business, other ends must be considered in light of wealth, even if another end takes priority in other contexts. It also means that the social conditions for the integration of various ends and the pursuit of any end must be respected. This is another way of saying that basic individual rights must be respected.[5] But since that sort of respect is an obligation one has in all contexts under all circumstances, we have no *additional* obligation but rather one that makes all other social obligations meaningful. We can only begin to know what obligations we have towards others when we know what their rights are. In addition, we can only begin to cooperate effectively with others when we do so on the basis of mutual interest. And if our interests can become our obligations we shall more likely understand the moral value and propriety of business than if we think in terms of trying to transform obligations into interests or of making obligations independent of interests altogether. □

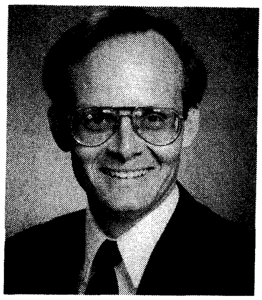
1. We focus mainly on the corporation and its managers, since this is the main focus of most of the writing on business ethics.

2. This position is reprinted in most business ethics texts. For example, see W. Michael Hoffman and Jennifer Mills Moore (eds.) *Business Ethics* (New York: McGraw-Hill, 1975), pp. 153–157.

3. One need only consult the essays conjoined with the one mentioned in the last note to confirm this point. Any other business ethics text would serve as well.

4. This argument does not rule out the possibility that some things which at first seem like they might detract from profitability might in the end contribute to it and are therefore legitimate.

5. I have expanded on these points more fully in "Corporate Social Responsibility," *Business Ethics and Common Sense*, Robert W. McGee (ed.) (Westport, Conn.: Quorum Books, 1992), pp. 137–151.



Businessmen and the War of Ideas

Years ago as a college professor of economics, I posed a question to each crop of freshman students on or about the first day of class. "Can anyone tell me," I asked, "what determines whether society is organized along socialist, centrally planned lines or as a free enterprise, private property order?" The answer to that query, I suggested, would be the same as the answer to this corollary question: "What causes societies occasionally to change from one economic system to the other?"

Rarely would I elicit the response I was looking for, in spite of all the hints I gave. The students' answers included the following: "the President," "the Congress," "the news media," "the unions," "the schools." Invariably, someone would suggest there was no determinant at all, that we were talking about mere random events—a kind of irrational and unexplainable ebb and flow of history.

At some point, the guesswork would come to an end and I would reveal the answer I was seeking. "People or the institutions they establish play important roles, but neither one is fundamental enough because neither one explains why people behave the way they do. The correct answer is that which the French author Victor Hugo once said was more powerful than all the armies of the world: IDEAS![1]

People such as politicians, activists, clerics, and teachers can often be agents of change, but ideas are the instigators. In shaping public policy that includes the larger question of free enterprise or socialism, democracy or dictatorship, ideas are of decisive importance. What people believe says a great deal (maybe everything) about how they behave, for whom they vote, what laws and rules they embrace, what kind of system they'll work to achieve. Change ideas, and you can change the course of history.

Ideas—both good and bad—can, indeed, be quite intoxicating. They evoke strong passions and spark revolutions. In this century, we witnessed first the rise of a world empire committed to the ideas of Karl Marx, followed by its dissolution and demise at the "hands" of a more powerful idea, that of freedom and free markets.

The British economist John Maynard Keynes put it well when he wrote, "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back."[2]

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It will come as no surprise to many in the business world that anti-capitalistic ideas have had a dramatic impact in this century. A public sector that imposes more regulations than ever on the private sector and consumes at least five times the share of national income it consumed in 1990 is stark evidence of those ideas.

Another disturbing bit of evidence came from a study a few years ago of network television in America: only 3 percent of business people depicted on television, the Media Institute found, were involved in "socially useful or economically productive" behavior.

The same study reported that more than half of all corporate chiefs on TV committed illegal acts ranging from fraud to murder. And a special PBS program entitled "Hollywood's Favorite Heavy: Businessmen on Prime-Time TV," declared, "By the age of 18, the average kid has seen businessmen on TV attempt over 10,000 murders."

Make no mistake about it, these developments reflect (and even nourish) a body of opinion, a complex of ideas, which at their root are inimical to free markets and private enterprise. They speak volumes about a void in our national economic education. And in a subtle but corrosive way they have been undermining the philosophical and institutional pillars of our free society for decades. "Ideas," Richard Weaver once said, "have consequences."

Because the war of ideas is so important, American business simply cannot afford to be a conscientious objector. If whether you live in a socialized economy or a free one matters to you (and it absolutely does, even if you choose not to think about such things), then failure to commit time and resources to help shape the climate of opinion around you is shortsighted and probably suicidal.

Many business executives may be quick to say, "But I *am* involved in such things. I give money to candidates, and so do the political action committees to which my company contributes." That may be important, but it's also akin to locking the proverbial door after the horse has already left the barn. Politicians usually reflect opinion and seldom generate it; what they can accomplish in office is defined and circumscribed by prevailing majority opinion. If you really want to make a difference and get the maximum bang for your buck, then you should invest in ideas. Change public opinion and the politicians will fall into line accordingly.

Business funding of public policy research (or similar so-called "advocacy" groups) is not new. What comes as a surprise to many people is the fact that a sizeable chunk of those dollars has gone (and still goes) not to "free market" groups but to those of a very different bent. Too many people in business are funding the wrong side.

In a recent edition of *Patterns of Corporate Philanthropy* (published by the highly regarded Capital Research Center in Washington, D.C.), economist James T. Bennett documented what he regards as the sad state of corporate America's support for the very system which forms the foundation of their existence, free enterprise. Bennett says that year after year, the overwhelming share of corporate donations for public affairs research groups went to those of an anti-free enterprise persuasion (61.3 percent, by his calculations).

In his introduction to the first edition of *Patterns*, Robert H. Malott of the FMC Corporation wrote, "Unfortunately, most corporations devote only a very small share of their contributions to public affairs. Worse yet, even these relatively small contributions often reflect a strategy of appeasement. Put more bluntly, many corporations actually reward the groups that most vigorously attack them."

Business support of groups and people who advocate an ever more intrusive role in the economy for government amounts to nothing more than feeding the alligator in the hope that he'll eat you last. As a stockholder, I feel betrayed when I see that happen. As a believer in the much bigger picture, the importance of a free society, I am outraged by it.

American business needs to take a hard

look at where its public affairs dollars are going and ponder the question, "Are we helping to preserve and strengthen private property, free enterprise, and individual initiative, or are we slitting our own economic throats by subsidizing groups that push for more centralized planning and control?"

Anyone in business who suffers from the illusion that ideas are too intangible to matter ought to wake up and smell the coffee. Ideas make all the difference in the world because they create the stage on which all of us perform.

Investing in ideas—the *right* ones, not just *any* ideas—is a long-term investment, but one which has a return every bit as tangible as the purchase of stock. The first priority for each individual business person is the same as that for anyone else who values freedom: educate yourself! Become as effective for freedom in both word and deed as you possibly can. Then, if your material means allow, consider investing in those groups committed to the free market, such as The Foundation for Economic Education. The return on that investment—a stronger, free society—is the one yield that *won't* raise your tax bill and *will* go a long way to assure that your children live as free and prosperous citizens. □

1. *Histoire d'un Crime, Conclusion: La Chute* (1877). Hugo's original, "On résiste à l'invasion des armées, on ne résiste pas à l'invasion des idées," has been translated and popularly paraphrased as: "More powerful than all the armies in the world is an idea whose time has come."

2. John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (1936), chapter xxiv.

THE FREEMAN
IDEAS ON LIBERTY

THE WORKER IN CONTEMPORARY SOCIETY

by J. E. Chesher

It is nearly commonplace now for intellectuals to think that we live in the "post-modern" era in which everything is subjected to not only close scrutiny but "deconstruction," revision, interpretation, or some other possible adjustment in understanding. Yet such a reflexive way of thinking is nothing new. Philosophers have always engaged in it. With the voices of intellectuals being more widely and effectively transmitted in our high-tech era, however, the reflexive mode of thought is gaining wider promotion and impact.

One of the benefits that accrue from this assault on the tradition is the discovery of mythology disguised as common knowledge or intellectually supported doctrine. An example of this, directly relevant to our concerns in this essay, relates to the idea of the worker in modern society. The commonly received view, as evidenced by an examination of how the worker is depicted in the media, in public entertainment, and indeed, in philosophy itself, has the worker as a victim of powerful, sinister forces variously identified as corporations, or employers, or capitalists, or business, or the military industrial complex—forces that conspire to exploit, enslave, and thereby diminish the worth of those who labor for a living. Deprived of the power that comes from owning the means of production, the worker is at the mercy of the owners, the capitalists. Short of uniting and eventually seizing the means of production, or threatening stoppage of production through strikes or other collective action, the worker is doomed to remain a victim, slave to the desires of the capitalists.

This model, the reigning but aging paradigm, is clearly adversarial and pessimistic: the worker is inherently disadvantaged, at odds with the owner/capitalist, and bound to suffer injustice and hardship until he joins forces with other workers, prepared to enter into mortal combat. According to this view, the cause of worker suffering is capitalism itself, commerce in a free society. There is, of course, historical documentation of worker abuse, child labor, and hazardous working conditions that is consistent with this view, but several points are worth making.

1) As long as one human being has power over another, the possibility of abuse exists, but this is a feature of human weakness, not of free commerce as such. We ought not blame capitalism for worker exploitation any more than we should blame parenthood for abuse of children.

2) At least some portion of the plight of the worker, especially in the first hundred years or so of the industrial revolution, was due to the ignorance and crudeness that accompany the early stages of any develop-

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mental process, and not to the vicious motives of the owners of production. In retrospect, and, given the knowledge, sensibilities, and expectations that we now have as a result of experience and social-political growth, the working conditions of the early industrial worker are beyond belief, and are certainly unacceptable by today's standards. However, to assume, as the popular model does, that conditions would have been radically better had workers owned the means of production is highly speculative. Nor is it borne out by the experience of workers in Communist countries since 1917, in contrast with the lives of workers in capitalist societies.

3) The unprecedented progress in technology in the present century, resulting in an enormous increase in distributable goods, has made possible the extension of material goods to working people undreamed of in previous centuries. Pressure to distribute those goods equitably has increased in direct proportion to their production. There are, today, many workers in industrial nations whose quality of life matches that of the privileged few at the beginning of the modern era.

4) Regardless of the causes of worker plight in the early and middle stages of industrial development, there is nothing in principle adversarial in capitalism: the worker is not necessarily and always at cross purposes with management; a free market is not necessarily an arena where workers must lose. Indeed, in response to felt needs, workers have, both collectively and individually, found means of securing higher wages and safer, more desirable working conditions for themselves, from forming labor unions, to convincing employers of the cost-beneficial advantages of higher wages and improved working environments. All of this is consistent with the idea of capitalism, not contrary to it, as the popular model would have it.

5) Regardless of the early history of industrialism and capitalism, the world of industry and commerce today so little resembles its crude beginnings that a fresh look is in order, especially if we wish to understand what it is to be a worker in the post-modern era. The traditional model of the downtrodden masses is an anachronism when applied to societies of developed nations.

In attempting to understand what it is to be a worker as we approach the twenty-first century, I will be making some very fundamental assumptions about human beings, assumptions which I believe are supported by common sense, though perhaps not shared by all intellectuals. It is in terms of this view of human beings that I think we can make sense of the worker, of his concerns, of what he ought to do and expect in an ever-changing, increasingly complex, technology-intensive society. The assumptions are these: the worker is a human being who is by nature motivated to seek his own happiness, is sufficiently capable of recognizing obstacles and opportunities to happiness so as to act in the direction of happiness, and realizes that securing happiness is at least in some measure dependent upon his efforts. He knows, in addition, that success in life (i.e., securing a reasonably happy existence), requires his paying attention to the world, especially those aspects that are likely to affect his chances of success. He also acknowledges that other human beings are, in general, like him in these ways. In short, a worker is a rational, self-interested person in a world of other rational, self-interested persons, aware that reality calls upon them to live intelligently in order to achieve a good life. Of course, this is a very general description, applicable to all human beings in every era, in every place. It is also description at a very fundamental level: the truth or error of this description has profound implications for how we are to understand everything else about human life and human society. Given these assumptions, what can be said about the worker in contemporary society?

The Effects of the Global Economy

Perhaps the most significant relevant feature of contemporary life is the emerging global economy: national alliances based on mutually beneficial economic interests; foreign trade relations impacting on nearly every aspect of domestic economies; opportunities as well as competitive challenges from abroad in cheaper labor, natural resources, consumer markets, innovations in production, management, distribution of goods and services. The effects of the global economy on the worker are more dramatic and far-reaching than any other development in human history since the Industrial Revolution. Indeed, the very concept of "worker" is undergoing change, as the demand for more skilled labor and white-collar workers increases, and as technology introduces more efficient tools for the production and distribution of goods and services.

The global economy, hastened by the collapse of Communism and the parallel spread of democracy and free-market commerce, has significant implications for workers in developed nations. The available, abundant, and growing supply of unskilled workers in developing nations will increasingly compete with and eventually make obsolete, unskilled labor in the developed nations, just as industrialism over the past two hundred years has replaced human toil with machines in so many areas of life. In the developed nations, demand for skilled labor will increase, opening up opportunities for employment in expanding service, information, and entertainment industries, to name a few.

A worker about to enter the market would do well to consider what skills are likely to be in demand, and to acquire such skills as would be consistent with her aptitude, interests, and special circumstances. This might require educating oneself as to the market demands, seeking employment/career counseling, and embarking upon a course of action such as a training program, vocational school, apprenticeship, or college. Put simply, it would be prudent of a young adult about to enter the labor force, to consider economic realities, to learn of the opportunities available, and move in the direction of those opportunities.

In contrast with workers of the past, a contemporary worker should not expect to work for one and the same employer/company/industry from graduation to retirement, nor should she expect her present knowledge and skills to be marketable for a lifetime. (Consider, for example, the challenges and changes awaiting a young auto mechanic or audio-visual repairman entering the work force in 1960 and expecting to work in that field for the next 35 years!)

Workers already employed would be wise to determine the extent to which the forces of change are likely to threaten or otherwise alter their jobs. If, for example, they are in a low-skilled, labor-intensive industry, competition from abroad will be an increasing reality. It would be wise to consider retraining, education, acquiring skills that will be in demand. All of this, admittedly, goes against the demand for "job security" which in recent years has become quite pronounced, especially among members of unions and others who lobby for protective legislation.

Job Security

Job security is a contemporary economic myth worth exploding. In a free market, a job is "secure" only to the extent that there is a demand for it—that is, to the extent that there are customers willing to pay for the product or service that makes the job possible at all. Thus, to demand job security is tantamount to demanding a "guarantee" that there be customers. This would require state-mandated, coercive measures creating, in effect, involuntary servitude, a condition that exists under socialist planned economies where the state, rather than freely choosing individuals, makes economic decisions. To the extent that one person's job is "made" secure, someone else's job or freedom or opportunity to pursue one will thereby be threatened. To expect "job security," either from membership in a union, or from protective legislation, is therefore not only unrealistic, but attempts to bring it about would shift the burden of responsibility for one's life from oneself to others, and would deprive individuals of the right to make choices for themselves in precisely those areas where their welfare is at stake. Much of what goes under the name of (special) "worker's rights" as distinct from basic human rights such as the right to liberty and property, is of this nature: ultimately contrary to a free society and to the best interests of workers themselves.

A rapidly changing democratic and capitalistic world favors workers who are flexible, trainable, and adaptable. It also promises growing opportunities for creative and industrious individuals. With more people working as subcontractors, or by piece, the more familiar, traditional image of worker as wage-laborer struggling in assembly-line factories under the fierce command of greedy capitalists is all but obsolete in developed nations. In order to avoid the extra-labor expense and other burdens of having employees, many companies are sub-contracting their work to individuals, who then are effectively self-employed and who could, conceivably, enter into agreements, or joint ventures, with other workers.

For example, one company, a manufacturer of fishing tackle, has workers throughout the country assembling lures, spinners, floaters, and small jigs in their homes. Materials are sent to the workers, who assemble them at their own pace, according to their own schedules, then return the completed products by mail and are paid a set fee per certain quantity. The worker establishes his own hours, provides his own workplace, and produces according to personally set quotas, needs, and demands, rather than those of an employer. The worker may even enlist the aid of friends or family. He does not have to punch a time card, account for his every move, or go through some bureaucratic ritual to take an afternoon off or get permission to experiment with a new way to do the work. The "employer," in turn, enjoys the benefit of a nearly endless labor pool, does not have to provide an assembly plant, or pay workers' compensation insurance and fringe-benefits. This is a mutually beneficial arrangement, one that will replace, in many instances, the traditional assembly-line-factory model of mass production employment. Such an arrangement, in contrast with the old model, has less of the adversarial, "master-slave" features.

Flexibility for Workers

The new model allows the worker to work for more than one employer at a time if she chooses. It does not impose, from the top down, restrictions and regulations concerning working hours, environmental impact, and safety. Additionally, there is less government involvement, since there is no workplace, no shop, no factory for OSHA to regulate, no labor practices for the Labor Department to enforce, no need for a worker compensation bureaucracy, or the permits, licenses, warnings, affidavits, bonds, deposits, employee records, and various other documents that in-house employment requires. And yet, this is still a worker doing labor; this is still a business owner or a corporation seeking profit: in short, this is still capitalism in operation.

At the high-tech end, as the telecommunications industry expands, and as personal computers, fax-machines, and other information-processing and transmitting devices become common household items, a significant portion of office work now being conducted in commercial buildings, will be performed at home—and in increasing numbers, by workers who will likely be self-employed, hiring out their skills and equipment to companies who will no longer need to lease office space for this work. (These buildings can be converted into apartments, or refitted for other uses; traffic congestion will be eased; air quality will improve and countless other benefits will follow.) And yet, this is still a worker doing labor; this is still a business owner or a corporation seeking profit, still capitalism in operation. As the kind of work, and the conditions of employment change, so too will the relationship between employer and employee and among co-workers. Just as businesses are entering into international alliances, so too might workers unite through computer networks to exchange ideas and techniques, discuss problems, seek solutions, and form organizations that can help them market their skills and negotiate with prospective employers.

Historically, we have seen a variously progressing evolution in the improvement of life generally, and the conditions of workers specifically, over the past few centuries, certainly since the beginning of "modern" times. Some of this is due, no doubt, to the increasing replacement of human toil with machines, with the growth in productivity due to industrialization, mass production, the division of labor, and the general increase in wealth that has resulted from the expansion of commerce.

When one compares the life, the working conditions, and the prospects for alternatives available to workers in developed nations to that of workers in underdeveloped nations, the progress that commerce makes possible—for workers as well as owners—is dramatically evident. Clearly, that there were downtrodden masses at the beginning of the modern era is not in the nature of a business society, but is owing to other factors. The further we are from those beginnings, the more evident this becomes. In the developed nations, the world is catching up. The ideals of the humanistic tradition: respect for persons as persons, protection of individual rights, in short, personal sovereignty, self-determination, and human dignity, have taken hundreds of years to reach the present point, with considerable distance to go. But progress has been made, due, in large part, to the spread of democracy and the growth of commerce, especially in the last half of the present century. Workers themselves, through organized labor, increased productivity, and political action, have contributed to the growth of democracy and commerce, and thus to their own well-being. But there are limits beyond which one ought not go, even in the name of security or protection, if one is to live in a free society and remain autonomous.

Workers ought to recognize that there can be no free society without economic freedom, without free markets. It must also be recognized that human beings, the vast majority of whom are workers, are better off in a free society—have more opportunities and alternatives. Thus, it is in the best interest of workers to champion actions, institutions, and attitudes that promote freedom. With freedom comes risk, and so a worker in a free society ought to prepare for risk. If he expects others to protect him from accidents, job loss, medical costs, and old age then he must relinquish sovereignty to those who will assume the responsibility. But this is the same as relinquishing his freedom. One cannot have it both ways. Freedom means risk. Besides, to give up freedom for economic security is futile as well as foolish, since security is impossible. This does not mean that risks cannot be reduced or guarded against. There are all manner of arrangements, from insurance, to safety training, to education, to negotiated terms of employment, to a variety of worker organizations that can provide workers with protection.

At the beginning of the Industrial Revolution, there was widespread worry that machines would put human beings out of work. The very opposite has happened. As we approach the twenty-first century, global expansion of commerce, combined with advancing technology, will provide increasing opportunities especially for creative, skilled, and ambitious workers. Certainly, some industries will disappear, spheres of power and influence will shift, segments of populations will be displaced, some communities will wither. All of this is inevitable in human life. The world is entering a period of unprecedented growth, which means loss and displacement, as well as progress and opportunities. More than ever before, human beings will be called upon to be attentive, thoughtful, and responsive to matters which affect their welfare. The particulars of how this ought to be done will vary with context, but the general recipe for a successful life remains unchanged and continues to hold promise in direct proportion as societies are free. □

THE FREEMAN
IDEAS ON LIBERTY

The Ethics of Affirmative Action

by Steven Yates

Affirmative action has troubled the American political landscape for over three decades. Sooner or later, every ethicist must confront the dilemmas it and a variety of closely related policies—multicultural education, diversity management, sensitivity training sessions—pose. The dilemmas themselves indeed seem acute. It is true, for example, that U.S. history reveals poor treatment of this country's minorities and its powerless. Native Americans were taken from their lands and forcibly relocated. Decades of enforced discrimination left blacks well behind whites politically and socioeconomically. Women were denied the right to vote for years.

The 1950s saw the start of an extensive effort to repudiate discrimination and bring about equal opportunity. Then something went wrong. The struggle for genuine equal opportunity was lost amidst the growing clamor by an ever-increasing number of groups for special government favors. Equal opportunity laws, which initially rejected preferential policies, were replaced by affirmative action programs which could not be implemented without them.

Backers of affirmative action argued that blacks and other victims of past discrimination were so far behind in the economic race that without preferential treatment, equal opportunity would never be more than a high-sounding phrase. Thus race-conscious policies emerged with a vengeance. Employers had to keep voluminous records on the race, gender, ethnic heritage, and religious background of prospective employees so they could prove they had not discriminated against those designated by the government as victims. Government agencies expanded their reach to oversee implementation. Those found not in compliance, even innocently, sometimes saw their businesses imperiled.[1]

White males started chafing at reverse discrimination right away. Well-known cases such as *Bakke* and *Weber* resolved little, though, and future litigation seems inevitable. Meanwhile, special programs of all varieties not only failed to help the vast majority of those in targeted groups but left them worse off than before; the primary beneficiaries of affirmative action, after all, have not been the economically disadvantaged blacks and Native Americans, but middle- and upper-class women. The welfare state, another legacy of the 1960s, has now produced second- and third-generation dependents with no marketable skills and no incentive to acquire them. Victimology has become the country's largest growth industry—after government, of course.[2]

The affirmative action umbrella now

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covers roughly two thirds of the country's population, with the disabled and homosexuals the most recent entrants. Tensions between groups are at an all-time high, with skirmishes occurring constantly. The prevailing philosophy of multiculturalism which now underwrites much discussion of race, ethnicity, and gender has fueled division by emphasizing differences between groups.

What ought to concern the ethicist is the prevailing response to these problems. Instead of serious soul-searching and reexamination, an ambience of disinformation, concealment, and, when needed, outright dishonesty, has protected affirmative action and its kin for years. Begin with language. *Equal opportunity* clearly does not mean equal opportunity but preferences for some at the expense of others. Newspeak surrounds preferential policies with terms like *inclusion*, *celebrating diversity*, and *sensitivity*. Claims that affirmative action has sometimes forced businesses and entire industries to set quotas and hire by race and gender meet with belligerent denial, along with insinuations that only racists and sexists would make such charges. This tactic serves a very specific purpose: many white males, even those in positions of authority, will not question affirmative action for fear of being labeled racists. Finally, today's "sensitivity training" seems intended to inculcate in the white male who is turned down for a job or a promotion in favor of a less qualified woman or minority that, as a member of the oppressor group, he had it coming!

If affirmative action had been the boon to women and minorities its advocates claim, I doubt there would be much debate. Its benefits would be evident to everyone. What do we see instead? We see growing populations of minorities who lack the basic skills necessary for economic advancement, and are actually slipping backward. We see an educational system which seems powerless to do anything, and rationalizes its own failings with doctrines which make achievement as well as experience a group-specific notion. In the view multiculturalists espouse, schools should give minority groups "self-esteem" instead of knowledge and marketable skills. Sometimes this means rewriting their histories to invent "achievements." Afrocentrism is the best example, with its claims that the Egyptians were black, that the Greeks stole their culture from Africa (the real origin of civilization), and that two thousand years of racism has suppressed the truth.[3] Radical feminism, the noisy stepchild of affirmative action for women, is also shot through with bizarre claims about sex and rape, our pornography-driven culture, and the universal victimization of women by "patriarchal society." The war against "sexual harassment" has created a climate in which men are guilty if charged.[4]

Clearly we are on a downward spiral. Writers all across the political spectrum have observed that this balkanizing trend threatens not only basic Constitutional rights (such as First Amendment free speech protections) but the very fabric of representative democracy. Is there a better way? I think so. It's called the free market.

If transactions are voluntary and not coerced, businesses and other organizations will be free to hire according to their needs. This right will be *recognized* and *protected* by government. If personal responsibility is a central value, employers will *not* simply indulge base prejudicies or personal whims. Rather, business necessity—the necessity to remain as competitive as possible—will require employers to "cast their nets as widely as possible" and attempt to hire the best employees. A free market will ensure that information is available where qualified members of minority groups who are alert and seeking new opportunities will see it. In this sense, what has sometimes been called "weak" affirmative action will be permitted to continue on a *voluntary basis* among those who wish to continue it. As a voluntary enterprise, it may take a variety of forms which have the potential to address and solve the problems that coercive, government-driven affirmative action has been unable to touch, and without creating the dilemmas and rifts that coercive affirmative action has created.[5] Moreover, under conditions of genuine liberty, minorities will be freed from many constraints which have held them back: high taxes, licensure laws, zoning ordinances, etc.[6]

A question is in order. Given the freedom to do otherwise, will businesses and other institutions actually reach out to minorities? The mistrust evident in the question is actually misplaced. A recent study has shown that bigotry and prejudice are no longer considered acceptable to a majority of educated people.[7] *Education* has been and will continue to be the key. We should emphasize that racism is unfair to individuals whether directed by whites against blacks, or by blacks against whites. It is, in fact, a form of collectivism, and embodies its defects and follies in a particularly virulent form. Our tradition of individualism got rid of slavery. This tradition is still our best hope of keeping racism at bay.

At present, though, *coercion*, not *education*, is the norm. The proportioning of peoples by force is driving them apart rather than bringing them together. A new separation is loose in our society, fueled by the multiculturalist emphasis on how peoples differ instead of what they have in common.

Members of minority groups (and women) must be willing to question the dominant tendencies in what passes for education today. They need especially to question the collectivism and relativism inherent in multiculturalism, and affirm the values of liberty, responsibility, achievement, and toleration as values which hold universally, independently of race and gender. Then they will be motivated to obtain the skills they need to be employable, or to become entrepreneurs. This need not mean giving up a cultural or ethnic heritage but rather making an effort to preserve it in ways that don't undermine their capacity to prosper in a free society.

To sum up, government programs can never allocate skills where they are most needed. Lest the whole concept of "voluntary affirmative action" seem to place too much trust in human goodness, it is important to remember that government is the institution most responsible for the conditions minorities face. Slavery had foes as far back as the Revolutionary War, but continued under the support of government. Government instituted Jim Crow laws and involuntary segregation. Then, in our century, it passed minimum wage and licensure laws which effectively priced blacks out of the marketplace and created impassable barriers to their entry into many professions. Coercive preferential programs amount to government efforts to solve problems the government created in the first place—rather like using gasoline in an attempt to put out a fire.

For peaceful affirmative action to replace coercive affirmative action, though, criticisms by white males such as myself probably won't be enough. Women and minorities themselves must recognize that efforts by government to "help" them have proven futile. This means repudiating much of their current leadership. Fortunately, we have already seen the beginnings of such a trend in the writings of such black intellectuals as Thomas Sowell, Walter Williams, and Glenn Loury.[8] If the facts presented here and in countless other places can be shouted from the rooftops long enough, there may yet be hope for general economic advancement and intergroup peace in America. □

1. Consider, for example, what happened to the tiny Daniel Lamp Company in Chicago. In 1989 the EEOC filed suit against Daniel Lamp and forced its owner, entrepreneur Mike Welbel, to pay over $130,000 to compensate alleged victims of racial discrimination in which the only evidence was the absence of an officially approved statistical ratio. See my *Civil Wrongs*, chapter 1, for details.

2. See Charles J. Sykes, *A Nation of Victims* (New York: St. Martin's Press, 1992).

3. See for example Martin Bernal, *Black Athena* (New Brunswick, N.J.: Rutgers University Press, 1991).

4. For the latest account see Richard Bernstein, "Guilty If Charged," *New York Review of Books*, January 13, 1994, pp. 11–14.

5. Cf. Richard A. Epstein, *Forbidden Grounds: The Case Against Employment Discrimination Laws* (Cambridge: Harvard University Press, 1992).

6. For the best available account of these restrictions see Walter Williams, *The State Against Blacks* (New York: McGraw-Hill, 1982). Cf. also S. David Young, *The Rule of Experts* (Washington: The Cato Institute, 1987), ch. 12, for the effects of licensure on minorities and the poor.

7. For some statistics on white attitudes toward blacks see Paul M. Sniderman and Thomas Piazza *The Scar of Race* (Cambridge: Belknap Press of Harvard University Press, 1993).

8. For a good recent survey of "the new black vanguard" see Joseph G. Conti and Brad Stetson, *Challenging the Civil Rights Establishment: Profiles of a New Black Vanguard* (Westport, Conn.: Praeger Books, 1993).

THE FREEMAN
IDEAS ON LIBERTY

THE PARABLE OF THE TALENTS: THE BIBLE AND ENTREPRENEURS

by Robert A. Sirico

The parables of Jesus teach eternal truths, but they also offer surprising practical lessons for worldly affairs. In the Gospel According to St. Matthew (chapter 25, verses 14–30) we find Jesus' Parable of the Talents. As with all the biblical parables, it has many layers of meaning. Its essence relates to how we are to use God's gift of grace. As regards the material world, it is a story about capital, investment, entrepreneurship, and the proper use of scarce economic resources. It is a direct rebuttal to those who see a contradiction between business success and living the Christian life.

A rich man who was going on a long journey called his three servants together. He told them they would be caretakers of his property while he was gone. The master had carefully assessed the natural abilities of each servant. He gave five talents to one servant, two to another, and one to the third—to each according to his ability. The master then left on his journey.

The servants went forth into a world open to enterprise and investment. The servant who had received five talents went into business and made five more. The servant who received two made two more. But the servant who received one hid the master's property in a hole in the ground.

The master returned to settle his accounts. The servant who had received five talents came forth. "My lord," he said, "you entrusted me with five talents; see, I have made five more!"

"Well done, good and faithful servant!" the master responded. "You have been faithful over a little, I will set you over much. Enter into the joy of your lord!"

Then the servant who had been given two talents approached the master. "My lord," he said, "you entrusted me with two talents; see, I have made two talents more!" The master praised the servant in a like manner.

Then the one who had been given one talent approached his master. "My lord," he said, "I knew you to be a hard man; you reap where you have not sown, and gather where you have not scattered; and being afraid I went and hid your talent in the ground. See, you have what is yours!"

The master's response was swift and harsh: "You wicked and indolent slave!

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You were aware that I reap where I have not sown, and gather where I have not scattered; you ought for that reason to have invested my money with the bankers; then, on my return, I should have received my own with interest."

The master ordered that the talent be taken away from the lazy servant and given to the one with the ten talents. "For to every one who possesses not," said the master, "even that which he has shall be taken away. Cast that useless slave into the outer darkness; there shall be weeping and the grinding of teeth!"

This is not a story we often hear from the pulpit. Our times still exalt a socialist ethic where making a profit is suspect, and entrepreneurship is frowned upon. Yet the story relays a readily apparent ethical meaning, and even deeper lessons for understanding human accountability in economic life.

A Closer Look

The word "talent" in this parable has two meanings. It is a monetary unit: it was the largest denomination of the time. Biblical scholar John R. Donovan, S.J., tells us a single talent was equivalent to the wage of an ordinary worker for fifteen years. So we know the amount given to each servant was considerable.

More broadly interpreted, the talents refer to all of the various gifts God has given us for our use. This definition embraces all gifts—natural, spiritual, and material. It includes our natural abilities and resources—our health, education—as well as our possessions, money, and opportunities.

One of the simplest lessons from this parable is that it is not immoral to profit from our resources, wit, and labor. The alternative to profit is loss, and surely the loss of wealth, especially when due to a lack of initiative, does not constitute good stewardship.

St. Matthew's parable presupposes a local understanding of the proper stewardship of money. According to rabbinical law, burying was regarded as the best security against theft. If a person entrusted with money buried it as soon as he had it in his possession, he would be free from liability if anything should happen to it. The opposite was true for money that was tied in a cloth. In this case, the person was responsible for covering any loss incurred due to the inadequate care of the deposit.

Yet in this story, the master turned this understanding on its head. He considered burying the talent—and thus breaking even—to be a loss, because he thought that capital ought to earn a reasonable rate of return. In this understanding, time is money (or interest).

The parable also contains a critical lesson about how we are to use our God-given capacities and resources. In the book of Genesis God gave Adam the Earth with which to mix his labor for his own use. In the parable, in a similar manner, the master expected his servants to seek material gain. Rather than passively preserve what they have been given, they were expected to invest the money. The master was angered at the timidity of the servant who had received the one talent. God commands us to use our talents towards productive ends. The parable emphasizes the need for work and creativity as opposed to idleness.

The Quest for Security

Throughout history, people have tried to construct institutions to provide perfect security, as the failed servant did. Such efforts range from the Greco-Roman welfare states, to full-scale Soviet totalitarianism, to the Luddite communes of the 1960s. From time to time, these efforts have been embraced as Christian solutions to future insecurities. Yet in the Parable of the Talents, courage in the face of an unknown future is rewarded in the first servant, who has been given the most. He had traded the five talents, and in doing so, acquired five more. It would have been safer for the servant to have invested the money in the bank to receive interest. For his faith in his master he is allowed to keep what had been entrusted to him and what he earned, and he is invited to rejoice with the master.

This implies a moral obligation to confront uncertainty in an enterprising way. No one does this better than the entrepreneur. Long before he knows if there will be a return on his investments or ideas, he risks his time and property. He must pay out wages long before he has any idea if he has accurately predicted future events. He looks to the future with courage and a sense of opportunity. In creating new enterprises he opens up alternatives for workers to choose among in earning a wage and developing skills.

Why, then, are entrepreneurs so often castigated as poor servants of God? Many religious leaders speak and act as if the businessman's use of his natural talents and resources to turn a profit is immoral, a notion that should be cast aside in light of the Parable of the Talents. The lazy servant could have avoided his dismal fate by being more entrepreneurial. If he had made an effort to trade with his master's money and came back with less than a talent, he would not have been treated so harshly, for he would have labored on behalf of his master.

Entrepreneurship and Greed

Religion must begin to recognize entrepreneurship for what it is—a vocation. The ability to succeed in business, stock trading, or investment banking is a talent. Like other gifts, it should not be squandered, but used to its fullest for the glory of God. Critics link capitalism with greed, yet the fundamental nature of the entrepreneurial vocation is to focus on the needs of customers. To succeed, the entrepreneur must serve others.

Greed is a spiritual hazard that threatens us all, regardless of our wealth or vocation. The term has a proportional element, meaning there is an *excessive* or *insatiable* desire for material gain, regardless of financial status. The desire is excessive when, in the depths of a person's being, it outweighs moral and spiritual concerns. This parable makes very clear that wealth as such is not unjust—for the first servant received more than the second and third. And when turning a profit is the goal of using the entrepreneurial talent, it is not greed. It is the proper use of the gift.

In addition to condemning profit, religious leaders often favor varieties of social leveling and redistribution of income. Universal health care, greater social welfare spending, and higher taxes on the rich are all promoted in the name of Christian ethics. The ultimate goal of such constructs is equality, as if the inequalities that exist among people are somehow inherently unjust. Yet this is not how Jesus tells it in the Parable of the Talents. The master entrusted to each of his servants talents according to his ability. One received five, while another received only one. The one who received the least does not receive sympathy from the master for his lack of resources in comparison to what his colleagues have been given.

We can infer from this parable, that the leveling of money or the reallocation of resources is not a proper moral concern. The individual talents and raw materials that each of us has are not inherently unjust; there will always be rampant inequalities among people. A moral system is one which recognizes this and allows each person to use his or her talents to the fullest. We all have the responsibility to employ the faculties with which we have been endowed.

We can also apply the lesson of this parable to our nation's social policy. In our existing system, the labor of workers is taxed to provide support for many who do not work. We often hear that there are "no jobs" for many of our poor. Yet there is always work to be done. A man with two working hands can find work for a dollar an hour. He makes a decision not to work. Moreover, our welfare system discourages work. It creates the perverse incentive to go on welfare unless there is a job that will pay at least as much as government relief. God commands all people to use the talents they have been given, yet in the name of charity our welfare system encourages people to let their natural skills atrophy, or keeps them from discovering their talents at all.

We encourage sin this way. The Parable of the Talents implies that inactivity—or wasting entrepreneurial talent—incites the wrath of God. After all, the lowly servant had not squandered his lord's money; he just hid it in the ground, something that was permissible in rabbinical law. The rapidity of the master's reaction is surprising. He calls him "wicked and slothful" and banishes him forever. Apparently it is not just the servant's sloth that brings such wrath on his head. He has also shown no contrition, and has blamed the master for his timidity. His excuse for not investing the money is that he viewed the master as a hard and exacting man, though he had been given generous resources. Bible scholar John Meir comments, "Out of fear of failure, he has refused to even try to succeed."

This parable also tells us something about macroeconomics. The master went on his journey leaving behind a total of eight talents; upon his return it has become fifteen. The parable is not the story of a zero-sum gain. One person's gain is not another's expense. The successful trading of the first servant does not hinder the prospects for the third servant. So it is true in the economy of today. Unlike what is so often preached from the pulpit, the success of the rich does not come at the expense of the poor.

If by becoming rich the most successful servant had hurt others, the master would not have praised him. A wise use of resources in investment and saving at interest is not only right from the individual point of view; it helps others in the economy as well. A rising tide lifts all boats, as John Kennedy used to say. Similarly, the wealth of the developed world is not on the backs of developing nations. The Parable of the Talents implies a free and open economy.

Often left-leaning Christians will cite Jesus' words: "How hard it is to enter the Kingdom of God. It is easier for a camel to pass through the needle's eye than for a rich man to enter the Kingdom of God." His disciples were taken aback at this, and wondered then who could be saved. Jesus answers their fears, "For man it is impossible, but not for God." This does not mean that our material success will keep us from heaven, yet it does imply the necessity to order our lives properly before all our material concerns. Our concern for God must come just as the servants thought of their master's interest as they pursued profit. It remains true that for all of our worldly goods and deeds, we rely completely on God to attain salvation.

But for the conduct of economics, we rely heavily on entrepreneurship, investment, risk taking, and the expansion of wealth and prosperity. We should lend a critical eye to the way our culture treats enterprise. Business magazines carry stories of business success all the time. The hero is often the forward-looking, courageous, and cheerful entrepreneur, who is much like the capable servant given five talents. Yet at the same time popular religious faith continues to extol and promote behavior endemic to the idle servant who was banished by the master.

Christianity is often blamed for the failed socialist projects the world over. And in many cases misguided Christians have been involved in building socialist constructs. The lesson of the Parable of the Talents needs to be better understood. The socialist dream is not a moral one. It simply institutionalizes the condemned behavior of the lesser servant. Where God commands creative action, socialism encourages laziness. Where He demands faith and hope in the future, socialism promises a base form of security. Where the Parable of the Talents implies the morality of freedom to trade, invest, and profit, socialism denies it.

All people of faith need to work to close the chasm that exists between religion and economic understanding. Jesus' parable is a good place to begin to incorporate the morality of enterprise and the free market into Christian ethics. □

THE FREEMAN
IDEAS ON LIBERTY

Sweet Speculation

by John Ahrens

A recent trip to Russia produced one of those rare, small epiphanies that makes the observation of human nature so endlessly fascinating. I had taken along a large bag of Snickers candy bars with which to appease the children of my various hosts. But these treats proved to be extremely popular with adults. They were consumed soon after dinner on my first night in Moscow, amidst repeated exclamations about how "fresh!" they were. It was explained to me that Snickers are hot commodities for Moscow speculators—they hold them for six months or so and then sell them for many times the original purchase price. This is by no means the strangest feature of the post-Communist economy that is emerging in Russia. (Counterfeit cigarettes—cheap, Russian-made cigarettes packaged in recycled Marlboro boxes—are pretty odd.) Indeed, it does not seem strange at all when it is viewed in its context. Markets are springing up in the ruins of Communism like weeds in the ruins of an abandoned building. That this is so should come as no surprise to anyone. And this, in itself, is revealing.

When the opportunity presents itself, people *will* make a buck. What is remarkable is how frequently the opportunity presents itself. The case of the Russian entrepreneur who speculates in Snickers is not unlike that of the American entrepreneur who speculates in agricultural commodities. When a commodities broker buys a farmer's wheat at a fixed price per bushel before the wheat is even planted, he is speculating (i.e., taking a risk) that the wheat will actually sell for a higher price at harvest time. The farmer, on the other hand, trades the *possibility* of a higher price (and the risk of a lower one) for certainty and security. When a Russian entrepreneur holds a shipment of Snickers for six months, he is also speculating that the price will go up. The supplier who sold him the Snickers is trading risk for certainty and, perhaps, the steady cash flow he needs to continue to import goods. And as long as some people prefer the certainty of less money now to the possibility of more money later—because they prefer security to risk, or because they need a steady cash flow, or for some other reason still—any market, even a "black" market, will provide numerous opportunities for such speculation.

The chaotic, hyperinflationary Russian economy has produced a substantial number of speculators in the brief period since the collapse of Communism—speculators in real estate, consumer goods, currency—and it has made many of them quite wealthy, at least by local standards. The response of the Russian populace to this phenomenon mirrors the response of Americans to successful speculators in our own economy. Financial speculators who reap enormous profits from correctly anticipating market fluctuations are not generally respected in the United States; they are commonly thought to be unproductive parasites, and probably criminals as well. In a like manner, Russians

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commonly lump together all successful members of the emerging business class—whether they be drug dealers or currency speculators or real estate speculators or importers dealing in consumer goods— and characterize them as "mafia." And, like Americans, they resent the disproportionate economic and political influence, and the relatively high standard of living, that accrue to successful speculation.

Of course, some speculators *are* criminals, and it is quite natural to resent those who live well off ill-gotten gains. Indeed, it is a natural, though not very laudable, tendency of human beings to resent anyone who has whatever one does not. And the results of speculation are not always entirely congruent with the preferences of consumers: Russians would like their Snickers to be fresher (and they would like to be able to buy less profitable items like needles and thread). Everyone would like to buy their food at lower prices. Americans would like to see less of the instability in large companies and financial institutions that results from unsuccessful or especially predatory speculation. These are understandable sources of resentment, even if they are not entirely rational. But I think there is something more at work here.

It is worth noting that people are generally quite resistant to the argument that speculators make an important contribution to the market—that there might be less food, no Snickers, a lower level of economic activity in general without the activities of speculators. That speculators can profit from taking risks, providing capital, improving efficiency, and so forth, is more likely to be seen as a defect in the market than a virtue of speculators. What is at work here is an idea that has been in place at least since the medieval injunction against usury.

Thomas Aquinas, along with other medieval philosophers and theologians, argued that lending money at interest is morally repugnant because "this is to sell what does not exist, and this evidently leads to inequality which is contrary to justice." (*Summa Theologica* II-II, Question 78) The speculator, like the usurer, traffics in what does not exist, at least not yet. The speculator does not grow any food or import any Snickers. From one perspective, it seems that the speculator produces nothing, but profits from the productive activities of others. From another perspective, however, one might say that what the speculator produces is the market itself (or, at any rate, that the speculator facilitates the exchanges that constitute the market). From either perspective, speculation appears to be a very pure form of capitalist practice, and thus speculation is a magnet for any resentment that capitalism engenders.

But it seems clear that this resentment is misplaced. Adam Smith's original defense of the market economy provides a crucial insight into how to think about the moral dimension of speculation. Although Smith's argument that division of labor and freedom of exchange constitute the most *efficient* mode of economic organization is most often cited by contemporary defenders of capitalism, this is by no means his most fundamental argument. For Smith also argued that the market economy is the only economic system that functions to bring self-interest into harmony with the good of society.

The Virtue of Capitalism

Smith, unlike many other moral theorists, did not construe the common human inclination to pursue one's own self-interest as inherently evil, as something incompatible with the moral life. Rather, he construed self-interest as an essential feature of individual well-being, and also as a force that might be directed toward the public good. The great virtue of capitalism, he argued, is that it accomplishes precisely this: capitalism is nothing more nor less than a framework of laws and institutions which allows people to enrich themselves (i.e., pursue self-interest) only, or at least primarily, by providing goods and services that contribute to the well-being of others. Capitalism transforms the pursuit of self-interest into the pursuit of mutually profitable exchanges with the other members of one's community, i.e., into pursuit of the public good.

Seen in this light, the speculator becomes a kind of economic adventurer, a hero of the capitalist revolution, if you will. The successful speculator is one who, through superior luck, imagination, or intelligence, is able to identify previously unnoticed opportunities for mutually beneficial exchanges. By facilitating these exchanges, the speculator expands the economic horizons of a community in much the same way that more traditional adventurers expand our geographical or intellectual horizons. However, and this is a crucial component of Smith's argument that is often forgotten, this process works only within an appropriate framework of laws and other social institutions. If the laws and institutions of a community reward exchanges which benefit (some of) the participants at the expense of other members of the community, these are the exchanges that speculators will facilitate. If economic laws and institutions reward exchanges that disrupt the economy, we can be sure that the economy will be disrupted. Thus, the task of the political economist is a difficult one—to establish a framework of laws and incentives that accomplishes this harmonization of self-interest with the public good. People *will* speculate. Whether or not this benefits the community depends largely on whether or not society recognizes and seeks to exploit the potential benefits of speculation.

The genius of Adam Smith's defense of the market is his recognition of the complexity of human nature. The natural inclination to pursue one's own self-interest is potentially anti-social, but it is also a potential source of virtually unlimited economic progress. The resentment of speculators that is pervasive in both post-Communist Russia and the contemporary United States is, at least in part, an attempt to simplify human nature by identifying the pursuit of self-interest as something inherently anti-social, and thus as something that must be suppressed in order to create a just and humane society. And this has the seemingly paradoxical implication that post-Communist Russia and the contemporary United States face essentially the same problem. Both must seek to restore faith in the value of individual entrepreneurship—Russia in order to create a market economy and the United States in order to preserve the market economy that we already have.

I am optimistic that Russia will succeed in this task. Despite the resentment of economic success that is pervasive in Russia, most Russians are quite well aware of the benefits of a more or less unfettered market, and quite unwilling to return to the managed economy of the recent past. (Even the reconstituted Communist Party claims that it does not oppose the transition to a market economy but, rather, that it simply wishes to mitigate the dislocations attendant on rapid social change.) I am less optimistic that the United States will preserve a market economy in the face of increasing resentment of successful speculators. Decades of relative economic success have created a political culture that encourages impatience and envy. Americans are no longer willing to trust the "invisible hand" of the market, or to undertake the difficult task of creating a political culture which allows this invisible hand to harmonize self-interest with the public good. Instead, they want to enjoy the benefits of speculation—a responsive and expanding economy—without the costs. □

THE FREEMAN
IDEAS ON LIBERTY

ART AND COMMERCE

by Barbara Dodsworth

Today we are aware of the presence of the arts in our society in a broader way than ever before, and we have commerce to thank for it. Business, in response to the desires of consumers, has created reproductions and adaptations of works of fine art that surround us. Few of us are without at least one or two prints of famous works; images from the history of art grace objects of all kinds, down to the workaday tee shirt. The beautiful photography which illustrates commercial art engenders a sensitivity to images in the ordinary observer.

Artists themselves are less than thankful for the presence of the business community in their lives, believing that commerce is a corrupt and discriminatory agent set on repressing free expression. In fact, it works the other way. It is because of business that artists are free to follow their creative muses in any direction they desire. Commerce and the activities of the business community have fostered a higher standard of living and increased leisure time; in short, an atmosphere conducive to the development of all varieties of visual expression, no matter how bizarre. Ultimately this is of benefit to all creators of art. Artists often confuse an inability to make a living in the mode of their choice with the concept of a concerted attempt to repress artistic expression in general. While it is true that only a tiny minority of "fine artists" can support their families with their craft, many more men and women of talent direct their creative energies into extremely productive and lucrative careers in the commercial arts.

Contrary to what most people may think, it was always this way. Artists have always been part of a service industry, creating objects that were part of the daily environment of everyone. From ancient times onward, art has been considered an essential element of life as opposed to a luxury good. There was formerly less of a division between the commercial application of artistic ability and the "fine arts."

"Fine Art" versus "Commercial Art"

Artists nowadays look down upon those of their ranks who have chosen to work in the commercial arts. This snobbery is ultimately the legacy of the self-promotional efforts of the "divine" Michelangelo, who acted the ultimate prima donna in the creation of his own cult of artist-as-superstar. Somehow artists now think it is a betrayal of one's artistic gifts to use those abilities in the service of the society's needs for the mass application of visual expression. But really this is no different from the fulfillment of a contract specification provided by a patron, just as Pope Julius II hired Michelangelo to decorate his chapel ceiling in a particular way. The result is "fine art" by twentieth-century definitions, but at the time it was hardly different from our modern concept of "commercial art." And one can scarcely

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deny the creative genius of the painter in his application of his talents to the specific project.

One reason that the modern concept of "fine art" vs. "commercial art" has developed is that the marketing systems that disseminate art are different today than in times past. The museum is a relatively recent phenomenon, and even it itself has changed its relationship to the public in the last twenty years. Art which originally was created to occupy positions in private homes, or to decorate temples and churches, has been removed from its intended setting and placed in a display mode, as if on an altar for worship. The motives of the artist in creating the pieces suddenly took on a different cast; the idea of the piece as product executed for patron for a specific place and purpose has been erased, and instead the work is seen as an expression of the personal vision of the artist.

Working artists blame museums and art galleries for their troubles in making a living, claiming that there are discriminatory practices in the showing of works, that juries of shows are corrupt, and that gallery owners and media critics are in each others' pockets. What is less commonly recognized is that the museum and the gallery system are actually responsible for the success of all artists in general, by raising the social standard of artists to the level of professional; this is in sharp contrast to the Renaissance concept of the artist as artisan (rather like our attitude to, say, plumbers today). By popularizing art in the form of prints, books, postcards, and reproductions, the museum and gallery business have fostered a desire on the part of the public to own art, and even to own original works of art. Surely many artists who do prosper do so because of this heightened awareness.

In addition, the promotion of the "blockbuster exhibition," such as the "Treasures of Tutankhamen" at the Metropolitan Museum of Art in New York City several years ago, has helped to nurture an awareness of art on the part of the public. The museum's role in this regard is not unlike that of a medieval cathedral, whose exterior, decorated with images of saints and religious stories, would have provided both entertainment and education for the great mass of illiterate peasantry.

Medieval cathedrals, however, differed from modern museums in that they were financed by the Church. The modern museum is funded by a mixture of corporate and private donations with a liberal helping of state monies. Unlike the medieval churchgoer, who paid his share of the church expenses out of his pocket directly, the museum visitor pays for his enjoyment of the art works voluntarily at the time of his actual visit (in discretionary funds) and involuntarily, in amounts which he cannot control, from money he pays the government in the form of taxes. Thus we are all forced to support the activities of public museums, whether we visit them or not.

Changing Modes of Expression

What further separates us from the past is that the modes of expression in previous eras were different from today, and had different functions. In ancient Egypt, for example, art was used as a statist device to propagate religion and state authority; as a result, the visual expression of the Egyptians remained extraordinarily static, changing very little over the course of three thousand years. In Greece, with the development of the concept of democracy and individual freedom, we see a corresponding emphasis in sculpture on the movement of the human body, and a celebration of its beauty and individuality. Art was certainly used for the decoration of temples and for political propaganda, but for the first time we see the beginnings of the concept of consumerism and art: wealthy men were interested in acquiring unique works of art to delight their eye, to enjoy in their own homes. Thus arose the surprisingly modern concept of the glamorous artist, a man who was kissed by divine genius, blessed with extraordinary creative gifts. However, those gifts were used to execute works of art which were specifically created to please the patron, either made to order by contract, or designed with a specific kind of buyer in mind.

Ancient Greece, like the Italian Renaissance, was an abundantly creative period for the arts. One cannot help speculating as to how the political structure fostered these riches. Both periods were marked by an intense feeling of competition between independent city-states, which naturally gave rise to the desire for each to outdo his neighbor in the ornamentation of public buildings and in the level of aesthetic sophistication on the part of the wealthy collector. By contrast, painting and sculpture produced in the Soviet Union were notable for their lack of experimentation, their unimaginative repetition of acceptable visual norms, their low level of creativity and interest. With the emergence of the independent republics, perhaps we will see a flourishing of the visual arts.

On the other hand, since the economic development of the United States has some unnerving parallels with the economic development of the later Roman empire, perhaps we will go the other way. The later years of the Roman empire were marred by the exorbitant increase in taxes, resulting in the erosion of the tax base and the concomitant economic depression. Art work in this period is notable for its increasingly abstract qualities, its lack of devotion to realism, its poor quality, and its reduced abundance. Typical of the period is the pre-made sarcophagus, decorated completely except for a blank medallion all ready to receive the "personalized" portrait of the purchaser, just like a modern headstone. Sound familiar?

Artists are interested in making a living just like everyone else, and will direct their energies into other fields of activity when they observe that the economic climate is not conducive to the production of their craft. It takes only a couple of generations of decline for art to lose its technical virtuosity and become slack and flaccid; no one can draw if no one is available to teach drawing.

But the artists who do make a living out of art—either in the commercial field or in the fine arts—are able to do so because of the receptivity of the environment to aesthetic pleasure. In the promotion of art works through the use of prints and similar items, museums are only developing a concept first introduced hundreds of years ago.

The Rise of the Mass Market

With the Renaissance and the development of printing techniques art was able to take on a new mass market appeal. For the first time, inexpensive woodcuts and engravings of religious themes were available to the individual buyers to take home and enjoy in private. This trend was a reflection of wider currents in social development; in Italy this took the form of what is loosely called "humanism," a cultural movement which sought to secularize Christ and Mary and in the process popularized art. Thanks to the activities of artists like Luca della Robbia, who invented a process to mass produce inexpensive terracotta casts of sculptures, it was suddenly possible for the members of the merchant classes to own works of art comparable in beauty to the masterpieces commissioned by the wealthy. Albrecht Dürer, in Germany, made himself rich by the sale of his exquisite prints; today he is revered for his lovely paintings, but it was his activities in satisfying the mass market demand for art that made his fortune.

Such objects as prints for the medieval and Renaissance public are finally becoming respectable subjects for study by professional art historians, who are fortunately beginning to move away from restricting themselves to the study of masterworks. It is not recognized frequently enough that these "masterworks" contain only limited creative expression on the part of the artists; such artists were told what to do and how to do it, by the Church or by the specific patron, and were quite circumscribed in their freedom to move beyond those specified limits. By not acknowledging the commercial aspects of what has been regarded as "fine art," a premium has been placed on the creative expression of the individual

ST. JEROME IN HIS CELL BY ALBRECHT DÜRER/DOVER BOOKS

artist, and a condescending attitude toward commercial art has developed.

Occasionally social currents worked to restrict the development of new trends in artistic expression; typically, since the time of the Greeks, the Western world had always sought out the new and exciting as fashionable. Nevertheless, events like the Black Death in 1347 could conspire with social forces to foster an environment antithetical to the experimental; people of the time believed that the disasters of the mid-fourteenth century were a result of divine punishment for the study of the pre-Christian past, causing the retardataire late Gothic movement in art of the second half of the century. It was as if Giotto, with his vision of the classical past, had never existed; and it was nearly eighty years later that painters finally felt free to express their admiration for Roman sculpture, and the Renaissance was born.

But even during the Renaissance those works that we acknowledge to be the creations of pure genius were actually charged with commercial implications and designed with business in mind. Art flourishes most dramatically when it pairs creativity with business acumen; artistic success should be measured not only by the beauty of the work, but by how well it demonstrates a response to the specifics of its creation. □

THE FREEMAN
IDEAS ON LIBERTY

Money and its Image Problem

by Daniel Lapin

If there is one political reality to be learned from the past three decades it is that public perception shapes real-life outcomes. A frightening change during this period has been a war on the wealthy conducted in response to the public perception that somehow the rich got that way by stealing from the poor. This perception includes the notion that wealth-producing activities are faintly unseemly and that economic activity causes rather than cures poverty. There is a way to restore the prestige of business success that requires a return to tradition. In order to examine it we must first analyze the nature of money.

Decades before our computer-controlled "virtual laboratories," Einstein created his famous "thought experiments." They allowed him to solve problems for which actual laboratory experiments would have proven too expensive, if not impossible, to conduct. Rather than measuring gravity in an elevator dropping down a three-mile elevator shaft, the great physicist showed that we can just as well, and a lot more safely, analyze the situation from the comfort of our desks.

In the social sciences, too, we can make excellent use of thought experiments. Let us conduct a thought experiment to see if we can understand the origins of our own calendar. The protocol proceeds as follows. We deposit a young boy and girl on an otherwise-deserted tropical island. Taking care that they have enough to eat, we set up concealed surveillance equipment and observe their development.

After a century or two, they will have increased their numbers substantially. By now a full-fledged society, they remain oblivious of any other people or any human history. However, they will certainly notice periodicity in the heavens, eventually developing a calendar. After further centuries of experience, they will most likely discover that the solar year contains 365¼ days, in the same way that prolonged scrutiny of the skies will eventually yield them a lunar month of about 30 days.

However it is highly unlikely that they will adopt a seven-day week. Not only is there no visible astronomic seven-day cycle, but seven does not divide evenly into 365, or into 30, which makes it an illogical choice. They would most likely establish a five-day week, as this would make each year a calendar replica of the preceding one.

Why, then, do we have something as confusing and artificial as a seven-day week when switching it to five would make so much sense? Only because we retain a primeval, collective memory: that long ago, God initiated a seven-day cycle as a kind of

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divine circadian rhythm. It is hard otherwise to account for the wide acceptance of the seven-day week.

As the seven-day week is the product of a collective memory of a religious tradition, so too is money. While our clandestine survey will reveal the islanders bartering with one another, it is less certain that they will make the leap of assigning value to disks of metal. That, in all probability, would not happen on our island, as indeed it failed to happen in many parts of the real world. Most populations that were isolated from Bible-based religious tradition failed to make the leap from barter to coins and capital.

Where the Bible served as the earliest source of wisdom, people understood the role of gold and silver. They learned how greatly to expand trade—and therefore wealth—by employing precious metals as an exchange medium. They understood the role of private property and the role of the law in protecting that property. Naturally, these peoples enjoyed a gigantic head start over those who had to discover this all by trial and error.

The Faith Habit

There was another reason why those Western civilizations based on the Bible flourished economically. The individual character traits that Judeo-Christian thought promoted are the very qualities that best prepare people for effective roles in commerce. One of the most important of these is the faith habit. This accustoms people to the real world, wherein almost every worthwhile venture requires one to make a major commitment without assurance of success. For example, couples must marry without the help of a crystal ball that would predict all the ups and downs of their life ahead. Farmers plant and await crops that may or may not ripen. And, of course, investments of capital always involve risk.

In fact, the very act of accepting metal disks or even pieces of paper, in exchange for a day of backbreaking labor, requires enormous faith. To understand the true dimensions of that faith, observe how things change in its absence. When investors lose faith in markets, when depositors lose faith in banks, when citizens lose faith in the currency, disaster strikes.

As long as the faith habit is intact, however, people will accept payment for their goods and services. They do so out of faith that when they require some commodity, a vendor will, in turn, accept their little metal disks or scraps of paper. As long as the future remains uncertain, people who maintain Bible-inspired faith have a great advantage whether as spouses, farmers, or investors.

Judeo-Christian thought nurtures another personality trait which well serves those who practice capitalism: deferment of gratification. A religious outlook helps to promote saving rather than impulse spending. It also inculcates in people the idea that there is merit in doing the right thing for its own sake, rather than for reward. This too is a valuable mindset for the ambitious entrepreneur who must focus on filling a need rather than on other people's purses. Everybody wants money; but those who pursue it directly instead of seeking a niche, usually fail. The most conspicuous commercial successes are won by those who find a way to serve other people, or provide them with things they want.

Religious teachings that emphasize the virtue of charity, would thus fit well into business school curricula. Charity helps to loosen the tight grip many of us have on our funds. No miser ever made a great investor. Religion encourages people to raise families, the best incubators of capitalism. There, the young future business professional learns the value of labor and its specialization. From wise and responsible parents, he learns virtually all the skills necessary for a first job. Finally, religion's emphasis on family helps an economy because few great commercial enterprises are built in one generation. It is children that fuel a man's ambition to drive himself beyond the needs of his own lifetime.

For these reasons, the world still awaits a society that has embraced atheism and also operates a successful free market. That this has not happened is no coincidence, but rather a consequence of the spiritual nature of money.

The Spiritual Nature of Money

Let us further analyze the spiritual nature of money. All human activities can be located somewhere on the spectrum that is anchored at one end by spirituality and at the other, by physicality. Praying is near the spiritual end; reading and writing, composing music and making tools are its neighbors. As the source of both great sensual pleasure and also of all new life, sex might be somewhere near mid-spectrum, while eating and excreting belong over toward the physical end.

One way of identifying a spiritual act is by determining whether a chimpanzee would understand it. This is because God endowed man with His spirit and so distinguished between man and chimpanzee. When I return home from work and slump into a comfortable armchair, a primate could undoubtedly sympathize. As I move to the dinner table and begin eating, he certainly understands. When I open a newspaper, however, and hold it motionless before my face, he becomes quite confused.

This test suggests that a business transaction is more spiritual than physical. A chimpanzee would not have the slightest idea of what is transpiring between proprietor and customer at the counter of a store. Economic exchange takes place only after two thinking human beings will it. The process is spiritual.

Human beings are always slightly uneasy about pursuits that have no spiritual overtones at all. When necessary, we superimpose spirituality precisely to avoid being exclusively physical and thus uncomfortably animal-like. We apply ceremony and ritual to those of our actions that are also animalistic. Only people read a book or listen to music; hence these activities require no associated ritual. On the other hand, all living creatures eat, engage in sexual activity, give birth, and die. If we do not confer a uniquely human ritual upon these functions, we reduce the distinction between ourselves and the animal kingdom. Therefore, we celebrate the birth of a child, often by a naming ceremony; no animal does that. Even if our hands are quite clean, we wash them before eating rather than after, like a cat. We prefer to serve food in dishes on a tablecloth rather than straight out of the can, although the physical, nutritional qualities have not been enhanced. We even say a grace or a benediction. After encountering an attractive potential partner, people do not proceed directly to physical intimacy. An engagement announcement followed by a marriage ceremony serves to accentuate that all-important distinction; no animal announces its intention to mate and then defers gratification for three months while it calmly prepares its wedding and future home.

The more physical the activity, the more awkwardness and subconscious embarrassment surround it. Photographer Richard Avedon shattered a barrier by capturing images of people as they ate. Frozen in the act of chewing, humans resemble apes rather than angels. Our mothers, themselves raised in America's Judeo-Christian tradition, taught us never to eat in public. Similarly we express a normal and healthy reticence about bathroom activities. On the other hand, as purely spiritual occupations, reading and art evoke no discomfort.

Likewise, buying and selling should evoke no psychic discomfort. Economic activity is another way in which we satisfyingly distance ourselves from the animal kingdom and justify our humanity. This helps to explain why the most secular elements in America commonly lead assaults on the free market. Those who have rejected religion are eager to find other outlets for their moral expression. There is no better way than to exhibit a revulsion for ethical capitalism. Today we hear people referring to the eighties as a period of moral depravity. Being unaware of the spiritual nature of money and wealth creation, these individuals consider the miracle of economic enterprise to be the human equivalent of dogs fighting over a bone.

The Origins of Man

The great historic clash between socialism and the traditional wisdom of the West is really just a reflection of a far more fundamental disagreement. This is over the question of the origin of Man. This is not a question that needs to be debated in churches and divinity schools as much as it is a question that needs to be settled in corporate board rooms and business schools. Either God created us, or we evolved from primeval protein sludge, passing through a primate-like phase on the way. No one has yet proposed a third alternative.

If we accept the Godless alternative, then indeed we do not differ in kind from monkeys or other animals, only in degree. We are less facile in speed, strength, and hearing than some animals but we think and speak a little better. Animals do not create wealth, they merely seize the commodities they need and people obviously do the same. They may employ more sophisticated methods like bonds, debentures, and other tools of trade, but it is seizing nonetheless. Clearly, morally sensitive people must decry this activity. Sure enough, American politics and academia long dominated by those hostile to a traditional view, echo this approach. Those that most strongly advance evolution as the one and only approach to studying the question of our origins are also those that most strongly oppose the free market.

On the other hand, if God created us and touched us with His abilities, then we are qualitatively different from animals. Our ability to speak and to create is unique. Therefore, animals plunder but people profit; the creation of wealth is an expression of our godly origins. This view of Man's origins helps to subdue the feelings of guilt often brought on by success. Frequently those with little religious faith who enjoy sudden success, such as Hollywood celebrities for instance, develop an almost irrational dedication to socialist causes. The idea that we are descended from angels rather than ascended from apes has undoubtedly played a role in one of the most magnificent consequences of history: American ethical capitalism.

Revealing his own brand of genius in *Paradise Lost*, John Milton etched the Bible's centrality in man's literary consciousness. He showed how the opening chapters of the Bible focus on the eternal tug-of-war for man's soul between the angels and the apes. There is a Titanic struggle between the Divine aspirations of a person's nobility and his basest indulgences. Whom would Adam obey, God or the serpent personification of the animal kingdom? After thousands of years of human history, the lingering memory of that tussle still resonates in the human soul. All heirs to the Judeo-Christian tradition feel the need to distinguish themselves from animals and to unequivocally demonstrate who won that Eden conflict. Seizing another's property by force is animalistic and a victory for the serpent, purchasing it voluntarily for the price set by the seller finds favor in God's eyes. A store or market is one of the few places in which people interact voluntarily leaving each party happier than he was before. No wonder then that God smiles upon the marketplace. Freedom from tyranny is a necessary precondition for both worship and trade.

It is therefore not surprising that economics used to be a field of study that belonged with religion and theology. Adam Smith as well as many other eighteenth-century economists were religious philosophers before they were economists. Smith wrote *Theory of Moral Sentiments* before he wrote *Wealth of Nations*. When the great universities moved the study of economics from their religion departments to their science departments they were actually driving a wedge between capitalism and the moral arguments and spiritual dimensions that underpin its validity. After all, whether a man dissipates his money frivolously or invests it wisely and whether or not he will bend rules to earn it depend mostly on his character and on his moral makeup. No wonder that the science that seeks to predict these things, economics, is known as the dismal science. Money is spiritual and how men relate to it depends mostly on the state of their spirit.

Faith is the fuel that drives both commerce and religion.

God and the Marketplace

Establishing that a close relationship exists between God and the marketplace helps us in three crucial areas. Firstly it helps to explain why atheism and business are not natural allies. One would have supposed that a philosophy of secular humanism, recognizing no authority and sanctioning all behavior would be naturally drawn to the world of money and power. One would have expected the political Left to excuse what it calls the "greed" of capitalism and to recognize it as nothing other than Darwinian law applied to the life of modern man. Yet, this is not possible; something as truly spiritual as commerce simply cannot coexist with socialism. The atheist himself recognizes that to be true to his credo, he must reject the free market because of its Godliness.

Secondly, it helps us integrate our careers into our lives instead of regarding those daily eight or ten hours as a distasteful and isolated part of life.

Finally, recognizing the congruence between work and spiritual reality, the business professional is all the better able to sell himself and his product. His work is creative and therefore a legitimate way of emulating God and His infinite creativity. Anyone with a sneaking conviction that socialism has a point, that Man and his abilities are finite as is the economic pie and that he who brings that pie to market and slices it for customers exploits both the baker and the public, is forever handicapped as a businessman. Nobody throws himself wholeheartedly into an endeavor he secretly considers demeaning and unworthy. The difference between the animal instinct of a squirrel gathering nuts and the inherent nobility of a human being earning a living becomes clear when you perceive economic enterprise in its correct position, at the spiritual end of the spectrum.

Failure to grasp the interdependency between a people's morality and their economy can levy a high cost. People often lose sight of how a statist government and its confiscatory tax policies will force increasingly desperate citizens to become petty felons as they struggle futilely to preserve the fruit of their labors. As people inevitably begin to cut corners, they lose some of their moral self-esteem, thereby lowering the trigger threshold of their internal moral alarms. This corrosive effect ripples out to every corner of the population.

Americans are just beginning to sense that many of the social pathologies that have made life more dangerous and squalid over the past three decades have their roots in the uprooting of religion from public life. We should also realize that the furious secularization that has wreaked havoc on our schools and families has not left our economy immune. It does not require a very elaborate thought experiment to demonstrate how much our economy would be boosted by restoring a traditional view of money. We need only contemplate why so many people glorify art and music and why they treat galleries and concert halls with an almost religious fervor. They do so out of a deep human need to devote at least part of their existence to activities which uplift. Art and music elevate because they are God-given and therefore unique to humans.

America's wealth-producing institutions ought to arouse the same feelings of respect and awe, for precisely the same reasons. By joining the frantic rush to abandon every vestige of our religious tradition, we free market enthusiasts have unwittingly contributed to the sabotaging of our prosperity. Our thought experiment will show that once our business infrastructure enjoys similar social esteem to that of the art establishment which it so generously underwrites, there will be at least one very valuable outcome. Politicians will tremble in fear before venturing an assault on that fountainhead of prosperity that for so long has been American business. □

THE FREEMAN
IDEAS ON LIBERTY

Commercial Banking in a Free Society

by Steven Horwitz

Although we can say a great deal about the *institutions* of a free society, and why they are desirable, speculating about the specific ways in which people will choose to organize themselves *within* such institutions is always a tricky matter. After all, the whole justification for the institutions of a free society is that only through its institutions can human beings discover progressively better ways of dealing with scarcity (of both goods and knowledge) and thus improve both our material and non-material welfare. Our ignorance of the details of a free society is precisely why having a free society is so important.

Nonetheless, this need not completely discourage us from imagining what the details of some aspects of a freer economy might look like. One way to go about this task is to look at the various ways a particular industry is unfree and imagine what removing those restrictions might do. In conjunction with such a thought experiment we might also look for historical examples where the industry in question was more free and explore the ways in which it operated and organized itself.

The banking industry is especially suited for just this kind of analysis. If we want to know what commercial banking might look like in a free society, we need only turn to contemporary regulation and the historical record to begin to piece together a coherent story.

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There are four major areas in which the freedom of American commercial banks is restricted. The first area is the set of prerogatives taken away by this existence of government central banks, particularly the private issuance of currency. The second deals with restrictions on geographic location, while the third concerns the relationship between banks and non-bank firms. Fourth, as a result of the first three, is mandatory deposit insurance.

Central Banks and the Issuance of Currency

In order for central banks to undertake the activities they, or their political overseers, have deemed necessary, they must acquire a monopoly over the production of currency. This restriction on the freedom of individual banks to create the kinds of financial instruments their customers might want has large and pervasive effects on the macroeconomy and the size of government more generally. Because "customers" must use the government-issued currency, they have no way of indicating their dissatisfaction with its quality or value. This is what enables governments to use the banking system to raise revenue; if they create more currency, it will be accepted by someone somewhere.

Central banks also have had a notorious time, even when the political incentives to inflate can be overcome, figuring out precisely what the right quantity of money should be. In a small version of what would face a comprehensive economic planner, central bankers attempt to estimate the demand for money and create the appropriate amount in response. For the reasons so skillfully articulated by Mises and Hayek, there are enormous knowledge barriers to this kind of central planning, even in one industry.

In a free society one would expect banks to produce their own brands of currency which would compete for the business of money users. Although this may seem a bit strange, having lived in an economy with only one currency, it really is not that much different from where we are today. Firstly, banks already offer competing monies. A checking account at Chase Manhattan is a different brand of privately produced money from a checking account at Citibank. Checking accounts are liabilities of the banks that create them, making them privately produced. They also differ in various ways: interest paid or not, rate of interest, fees charged, services offered, overdraft protection, and so on. Depositors choose among banks today based on the total package of products and services that accompany a checking account. One would expect the same if currency were competitively produced.

More important, competition in currency production would give producers the incentive to neither overproduce nor underproduce currency, and therefore maintain its value. In order for banks to get their liabilities (either currency or checking accounts) accepted, they would have to make them redeemable in some commodity (such as gold) or some other asset. Customers would not accept mere paper liabilities without some connection to an item which had value outside of the banking system.

As a result, any bank which overproduced would find customers returning unwanted currency which would lead to a fall in the bank's holding of the backing commodity, reducing its ability to create loans. Banks cannot afford to risk reserve shortages like this, so they would reduce their outstanding currency liabilities until those losses stopped. Banks that issued too little currency would see their reserves piling up and would be sacrificing the interest they could earn by making loans backed by those reserves. In a free society, the same market forces that create incentives to produce the correct quantity of shoes, toothbrushes, or eggs, would apply to currency. Because the banking system of a free society would get the supply of money generally right, it would also avoid the macroeconomic problems of inflation and deflation that have resulted from unfree central banking systems.

Virtually every country on the planet has had some experience with privately produced currency. The historical evidence suggests that countries with less regulated currency production had fewer bank failures and more stable macroeconomies. The Scottish banking system of the late eighteenth and early nineteenth centuries is a good example of the benefits of freedom, especially when compared with the substantially less free English banking system of the time. The U.S. experience of the nineteenth century provides a good example of how problems can develop when even private currency production is overregulated. The recurring crises and panics of the period can be seen as unintended consequences of misguided bank regulations.

In order to make their currency monopoly work, central banks have imposed other restrictions that would be absent in a free society. For example, central banks require banks to hold certain minimum levels of reserves. Normally these are higher than banks would otherwise hold and they usually do not earn any interest. Effectively they are a tax. In addition, reserve requirements prevent the public from having accurate information about bank portfolios. Banks that could afford to hold fewer reserves because they are safer are prevented from doing so, and banks who are riskier and might choose to hold higher reserve levels, especially in the absence of government mandated deposit insurance (see below), have no need to do so. In a free society, banks could pick the level of reserves they saw fit and would have to bear the consequences of holding too many or too few reserves.

More generally, a free society would not see central banks in the way they have developed in the nineteenth and twentieth centuries. There is nothing inherent in the evolution of banking that necessitates them, and their existence results from constitutionally unconstrained politicians striving after a cheap source of revenue. Of course banks in a free society would likely develop interbank institutions such as clearinghouses, but these would have no special government privileges and would be forced to compete for members and business.

Interstate Banking

A more general way of thinking about banking in a free society is that banks will be subject to the same laws as other corporations. One example of how that is not true today is the issue of interstate banking. It is very difficult for many American banks to open up branches across state lines. Laws permitting interstate banking are made at the state level and they vary from state to state. Although most states have liberalized these laws to some extent in the last 10 or 20 years, full nationwide banking does not exist.

One result of this is that many banks are insufficiently diversified because they are too closely tied to industries specific to their state. When those industries falter, the banks fail with them. Banks that can spread their risks across different industries, by operating in different states, are less likely to fail. One bit of historical evidence for this contention comes from Canada. Canadian banks have historically been able to operate nationwide. While over 5,000 American banks failed in the 1920s and early '30s, only one Canadian bank did. Although a number of bank *offices* closed, only the one bank failed. This statistic is even more compelling when one considers that the variation in economic conditions between rural and urban Canada is greater than in the United States, posing a greater diversification challenge.

In a free society, we could expect banks to operate wherever they pleased, just as other firms do now. The need for traveler's checks, or the hassle of finding a new bank after moving, would disappear as true nationwide banking would make it far more likely that one's bank would have offices in more places. One consequence of this change would be a smaller number of larger-sized banking organizations. However, as evidence from countries which permit nationwide banking indicates, these larger banks would operate more *offices* per capita than smaller banks. This would both improve access to banking for most people and enable banks to capture the cost efficiencies of large-scale production that are now closed off.

Glass-Steagall Restrictions

One other set of regulations on contemporary American banks are so-called Glass-Steagall restrictions. As part of the banking reform acts of the 1930s, a firm may not own both a commercial bank and a non-bank business. Firms like Sears that provide financial services can only provide those services to *non-commercial* customers. These laws also prevent banks from selling insurance or underwriting securities. Many argued that such an intermixture of banking and commerce was responsible for the numerous bank failures of the early 1930s, so a regulatory wall was needed to separate banking from commerce. Subsequent research has found this explanation of the bank failures to be incorrect and the justification for Glass-Steagall restrictions has been greatly weakened. Even the Clinton administration has recognized this and included liberalization of these regulations, as well as those on branching, in its reform package.

In a free society we would expect to see financial supermarkets where one could address all of one's financial needs (banking, insurance, investment) in one firm. There are obvious efficiency gains to producers in such a situation, as well as better service to consumers with one person or group overseeing their whole financial portfolios.

Because of the activities of central banks and the various other regulations noted above, bank failures are a real worry in unfree banking systems. As a result, governments have imposed mandatory deposit insurance in order to prevent the potential bank runs that their own regulations can trigger. If banks in a free society are unencumbered by central banking and other regulations, we would expect the whole problem of bank runs to be far less significant. Given this, any possible justification for government-mandated deposit insurance disappears.

Private Deposit Insurance

Banks in a free society might choose to purchase privately supplied deposit insurance as a way to reassure customers. They might also enter into interbank mutual aid agreements, or be insured through clearinghouses. Historically, banks have used these and other methods to convey trust to customers. Before deposit insurance banks would advertise their balance sheets and list the members of their boards of directors. Providing this kind of information was a way to establish their trustworthiness to actual and potential depositors. With deposit insurance, banks need not do this. It is reasonable to expect that banks in a free society will use these ways, and discover new and imaginative ones, of creating the trust on which all banking systems rest.

Banks in a free society will be literally nothing special. What makes banking so unfree today is that banks are treated differently from other business enterprises. The rule of law that would characterize a free society would demand that banks be treated no differently than other firms. If they are fraudulent or use force, then they need to face the consequences. Otherwise, any sort of voluntary arrangement banks make with customers will be allowed. The result will not only be a more free banking system, but a more efficient, safe, and productive one. □

Regulation and Productivity

by John Hospers

People don't enjoy having their lives regulated, whether they are children rebelling against parental commands or adults whose actions are subject to legislation by government. Still, don't we need regulators with coercive power such as only government has? What would happen if everyone could, without penalty, forge checks, violate contracts, dump poisonous wastes into the soil, and manufacture cars that are accident-prone? The market some-

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times regulates itself, but not always: people will often profit by causing injury and damage to others.

The problem is that the watchdogs themselves are imperfect. They are vulnerable to bribery and corruption, and most of all, operate with gross inefficiency. Moreover, those who are entrusted with positions as watchdogs often have an inordinate desire to increase their own powers. Regulating others often gives them more satisfaction than their income does, and they spare no effort to keep on increasing their own regulatory powers. And often nobody watches the watchers.

I shall present three examples, deliberately taken from a diverse array of activities, to illustrate how this problem affects the business community.

1. Environmental Regulation

Not many people set out to make their natural environment dangerous for human habitation, or desire to render entire species of living things extinct. Laws are enacted to inhibit those whose actions have this effect. Today, however, regulations have become so all-encompassing that no business and no landowner could long survive if all the regulations now on the books were strictly enforced. For example, there are countless underlings in the Departments of Interior and Agriculture who are empowered to say to farmers, "That mud puddle in your back field is hereby declared a wetland," thus making it no longer permissible for farmers to cultivate such land although they still continue to pay taxes on it.

Thousands of letters were sent out in 1993 from the Bureau of Reclamation of the Department of the Interior, informing the recipients that the Bureau intended to look for endangered species on their land. What if the landowner refused to permit such inspection? Then, since the absence of endangered species could not be confirmed by inspection, uncultivated parcels would be labeled as habitat for endangered species.

What happens if a piece of land is declared a habitat? Strict controls on use then come into play. "When the U.S. Fish and Wildlife Service had designated a habitat-study zone, one family lost $60,000 worth of production a year."[1] Since the zone is off limits to crops, a farmer cannot replant there. Moreover, banks no longer will make loans to buy such properties because they are aware that the buyer will not be able to use the land for planting crops.

Congress passes a law; the "beef" in the law is the enabling clause which permits the regulatory agency to make whatever regulations it deems necessary and proper to implement the law. Those who are subjected to the regulations must obey every one, however trivial or burdensome, or else receive large fines or even jail sentences. Usually the act is applied by its enforcers beyond the scope of what was envisioned when the law was passed. Already every landowner is subject to the intricately detailed provisions of the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Endangered Species Act, the National Environmental Policy Management Act, and so on. They are drowning under a flood of regulations, from which the only benefit may be to the regulators, keeping them in well-paid positions at the expense of the taxpayers.

The mission of the national Biological Survey is "to catalog everything that walks, crawls, swims, or flies around this country." To do this their agents must be able to enter every parcel of land in the United States—not every decade, as with the census, but on a continuous basis. "Landowners fear that the net effect will be to transfer *de facto* control of thousands more acres to the federal government."[2]

2. Housing Regulations

In past decades, prior to the massive interference of the federal government, inexpensive housing was far less of a problem than it is today. Cheap rooms could be had, for a dollar or two a week, with no particular amenities and perhaps a bathroom down the hall shared by several tenants.[3] But in most cases American cities these "flop-houses" facilities were torn down: "We can't have people living like that." The government tore down the building and built other ones at much higher cost. Most of those who had previously occupied these buildings could not afford the new ones.

To limit the cost to tenants, rent control measures were initiated, but of course such controls only prevented new housing from being built, and massive shortages developed. Who wants to risk losing money on real estate in New York City? Landlords who can sell do so at a loss and get out.

But rent control is only the most notorious form of regulation. In most states it is illegal to refuse to rent a room or apartment to someone because he or she is a welfare recipient: the ultimate threat of the renter whose every whim is not satisfied is "I'll report you to the Welfare Board and then you'll never be able to use your buildings for rental again!" It is a pervasive desire of landlords not to rent to welfare recipients; in general, owners say, they have little sense of responsibility; they are "all rights and no responsibilities." Many tend to be slovenly and messy in their personal habits; they demand privileges not in the contract; they leave lighted cigarettes where there are no ashtrays, and leave the flushing of toilets to lesser beings. Landlords do what they can to avoid renting to them, but if they say "I'm evicting this person because she has dirty habits" they will be told "No, you're trying to evict her because she's on welfare, and that won't work."

New regulations are constantly introduced to make ownership of rental property more burdensome. Every door (in some states) must be equipped with a large metal rod on a spring so that it will automatically close in case of fire. (This costs about $50 per door.) With new regulations being continuously enacted, the landlord's margin of profit, already precarious, often disappears entirely. Moreover, it profits the tenants to break some pipes or destroy some electrical fixtures because they don't have to pay rent until these are repaired.[4]

Meanwhile a new state law (in Minnesota, for example) specifies that if the owner does not pay his entire property tax in the year it is due, the entire property can be confiscated the following year. (What happens if the owner has a bad year? The government confiscates the property, and may operate it at a loss, payable by taxpayers.)

3. Mining

In a recent Roper public opinion poll, people were asked their opinion of each industry. Of 222 industries, mining ranked next to last; only tobacco fared worse.[5] But mining was, and is, more heavily regulated in the United States than in any other industrial nation.

Mitsubishi Corporation of Japan decided to build a new copper smelter in Texas City, Texas. Japanese officials were assured by state and federal officials that all the relevant permits would be issued in 12 to 18 months. The first application was submitted in June of 1989. Then came three years of conflict among environmental groups, permitting agencies, and company management. Air-and-water discharge permits had to be obtained; the U.S. Army Corps of Engineers had to issue its own permit; and an assortment of permits from state, county, and city agencies were also required—more than thirty in all. The Army Corps of Engineers promised a decision within sixty days, but waited 21 months.

Exhausted by the attrition, Mitsubishi finally cancelled the project. The new chairman of the Texas Water Commission said that when his permit came up for review in four years he would demand zero discharge of waste water—technically a virtually impossible demand. The air discharge permit from the Texas Air Control Board would take most of a year; building the plant would take another two years, and less than a year after that the company would be faced with the zero-discharge requirement. For these reasons Mitsubishi abandoned the project in March of 1992. They decided to build the identical copper smelter in Japan, where all the required permits were obtained in 14 days and the plant was built in 17 months. The president of Key Metals and Minerals Engineering Corporation, Dr. Thomas Mackey, wrote, "This action ended a marvelous opportunity for the U.S. to acquire a minimum-pollution energy-efficient modern copper smelter which would have been strategically located on the Gulf of Mexico's coast. . . ."[6]

As a result of this and numerous similar incidents, Japan is ahead of the United States in the development of mining technology. For many years the United States was a net exporter of copper. Today the United States has been surpassed in copper production by Chile. Gradually we are becoming non-competitive.

In 1992 the Congress passed a bill which may seem trivial by itself, but taken together with a mass of similar ones, is a significant straw in the wind on the future of mining in America. As a result of the new legislation, whenever your company buys an electric motor you are now required to buy "the most efficient" one: 96 percent efficiency is now mandated, whereas the earlier requirement was 94 percent. So what, one might say—what's a difference of 2 percent? The catch is that it must be 96 percent-efficient *when operating at full speed.* The 96 percent-efficient motor is more efficient at full speed, but it has less starting torque. In fact a conveyor belt could *never get started* with the newly required motor. But since the 94 percent-efficient motor is no longer permitted, users must now go from a 96 percent-efficient motor of 100-horsepower to one of 200-horsepower, just to get the motor started.

Once the 200-horsepower motor is running, it doesn't require all that extra energy—it can easily do with 100. But since the 100-horsepower motor that would do the job is now outlawed, it is necessary to use the 200. The extra energy is wasted, but no other option exists that is not illegal. By contrast, Japan can still use the 94 percent-efficient motor. American equipment will be more inefficient and more expensive, thanks to many laws such as this one.

The new law does not save energy—it requires industry to waste energy. It does its bit to make the United States non-competitive. It is assisting the gradual process of de-industrializing America.

Conclusion

Regulation—actually, more suitably called "prohibition"—of limited scope is necessary to prevent people from harming other people—that is, when one person or group would otherwise violate the rights of others. But the vast majority of today's regulations are not of this kind, but could better be called regulation for regulation's sake. It is these that are eroding America's industrial base and making the United States increasingly non-competitive in the world economy.

It was not always so: America today would be unrecognizable to those who lived here a century ago, thanks to the labor and ingenuity of many thousands of productive individuals—inventors, manufacturers, merchants, farmers, and countless others employed by them and associated with them. But in the last half century an opposing force has gathered momentum, threatening to bring these productive advances gradually to a halt. The conflict is between those who have *created* this vast array of goods and services, and those whose aim is to *control* the creators. Will the economies of other nations, not as burdened as ours by harassing regulations, replace the United States as the economic leaders of tomorrow? At present it is far from clear what the outcome will be. □

1. Jeff A. Taylor, "Species Argument," *Reason*, January 1994, p. 53.
2. *Ibid.*, p. 52.
3. See William Tucker, *The Excluded Americans: Homeless and Housing Policies*, Regnery-Gateway, 1990, Chapter 4.
4. Albert Lee, *Slum-lord*, Arlington House, 1975.
5. *Engineering and Mining Journal*, December 1993, p. 14.
6. *Ibid.*, p. 16-B.

THE FREEMAN
IDEAS ON LIBERTY

Business in the Global Community

by Robert W. McGee

Economic nationalism is on the rise. Hardly a day passes without an article or two about the disharmony that trade causes. French farmers insist they should be protected from foreign fruits and vegetables and ask for a special GATT provision to protect themselves. The French film industry insists on quotas on American-made films in order to protect French culture. French fishermen rampage through the streets of Marseilles destroying containers of foreign fish, thus violating the property rights of business owners. American sugar interests lobby Congress to give them subsidies so they can charge three or four times the world price for sugar, a policy that destroys the sugar industry in the Caribbean.

Japanese high-tech companies, auto manufacturers, and steel companies are accused of "dumping" their products on our markets. The language takes on sinister tones, as when some domestic producer accuses a foreign producer of "invading" the domestic market with low-priced products. In recent months, our government has been "talking down" the dollar in relation to the yen, making it more expensive to buy any Japanese good. Recent articles have said that the present dollar-yen exchange rate makes it impossible for the average Japanese exporter to make a profit in the United States, which is one reason for the decline in the Japanese economy.

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Trade barriers in the United States, such as tariffs, quotas, and anti-dumping laws, make it impossible for Latin American flower growers to sell their products profitably in the United States, giving them the incentive to grow marijuana or opium poppies instead. Textile protectionism in the United States has caused hundreds, if not thousands, of small Asian textile companies to go out of business because of our tariff and anti-dumping policies.

All of these restrictive trade policies reduce social harmony and invite retaliation. Wherever such economic nationalism occurs, it breeds conflict. A policy of free trade can counteract nationalistic tendencies, reduce disharmony, overcome petty prejudices, and raise the standard of living for the vast majority of the world's population.

Free trade exists only where there are no barriers to voluntary exchange. In a world of tariffs, quotas, "voluntary" restraints, and anti-dumping laws, it cannot be said that free trade exists.

The Benefits of Voluntary Exchange

Voluntary exchange has the effect of breaking down barriers, increasing tolerance, and reducing economic nationalism. It destroys provincialism and replaces parochial attitudes with a more global outlook. Young Iranians who drink Coke and watch American videos (even when their government spews forth anti-American propaganda) can see for themselves that America is not the evil place their leaders say it is.

The invasion of American jeans, videos, and other products played a substantial role in the crumbling of the Berlin Wall and the Iron and Bamboo Curtains. Western television broadcasts and products gave captive nations a realistic look at the West, which made it increasingly difficult for leaders to spread lies about capitalism and the non-Communist world.

One facet of economic nationalism is the belief that doing business with foreigners is somehow unpatriotic, un-American, un-French, or un-whatever. Governments and special interest groups would have us believe that it is better to buy a shoddy, domestically made product at a high price than a lower priced, better quality, foreign product. But consumers, for the most part, reject this line of reasoning. Acting in their own self-interest, consumers buy what they want from whomever they want. Most of them don't care who made a product or where it was made. They simply want the best goods they can find for the prices they can afford. Free trade allows them to do this.

What is good for individual consumers is good for the country, too. Although it is not usually the intent of consumers to increase the wealth of their country by making purchases, the effect is just that. The purchases they make increase the business volume of the companies that sell them products, thus expanding profits and employment. The fact that some consumers might purchase foreign products instead of domestically made products does not change this result.

The Seen and The Unseen

Protectionists claim that allowing consumers to buy foreign-made products causes unemployment at home. And that is true, to a certain extent. If a consumer is permitted to buy a Japanese car, Detroit loses a sale. If enough customers purchase Japanese cars, Detroit automakers will have to lay off some employees. That is what is seen. But what is not seen is the effect that buying a foreign car has on all other segments of the economy.

If a consumer can save $2,000 by purchasing a Japanese car instead of an American car, he is better off. Not only will he have the car he wants, but also $2,000 to spend on other things. The Japanese auto dealer (who is located in the consumer's town and who employs local people) also gains from the exchange. The employees who work for the auto dealer will be able to continue working because of the demand for their employer's product.

Other industries also benefit. If the consumer can save $2,000 by buying a Japanese car, he can spend the extra $2,000 on any number of other things. He can take his family on a vacation, which benefits restaurants, motels, airlines, and so forth. Or he can buy clothes or put on an addition to his home, which benefits local businesses. Even if he puts the $2,000 in the bank, someone benefits because the bank has more funds available to lend to someone else who might want to put an addition on their home or buy an automobile.

The problem is that the purchases he makes with the extra $2,000 are not easy for economists or politicians to see. All they see is jobs being lost in Detroit. They do not see the jobs that are being created in countless other industries because free trade allows consumer resources to flow to the areas they deem to be of highest value to them. Studies done by the Institute for International Economics and others have found that protecting a domestic industry by raising a tariff, implementing a quota, or having a voluntary restraint agreement with some country actually destroys more jobs than it saves. Although some tariff or quota might save 20,000 jobs in the auto industry, it also destroys 30,000 or 40,000 jobs in other industries, or prevents them from coming into existence. Some studies show that the job loss/gain ratio is more than three-to-one, which means that for every 10,000 jobs that are saved because of some protectionist policy, more than 30,000 jobs are lost or never created.

Protectionist policies do not enhance social harmony, they reduce it. Special-interest groups use the force of government to do what they themselves cannot do without committing a crime—rob consumers of a portion of their purchasing power. Free trade does just the opposite. It allows consumers to buy the products of their choice at whatever price they can find in the international marketplace. The spread of trade results in a higher standard of living for the vast majority of the population. As individuals become more familiar with the products of other countries, they tend, over time, to change their opinions of foreigners. Rather than think that their country's products should be supported at any cost, they begin to hold the view that the origin of a product is not as important as its quality and price. Thus, nationalistic ideas and provincialism take a back seat to rational self-interest.

The best way to support business in the global community is not by protecting or subsidizing various industries, but by abolishing trade barriers that prevent businesses from selling consumers the products they want. □

PEACE, POLITICAL SCIENCE, AND PEDAGOGY

by Stephen G. Barone

One of the latest fads in schools is a so-called "peace curriculum." It is wrought of the notion that peace is engendered by a certain kind of attitude: that if we teach teenagers and young adults to think and talk more about peace, or if we condition them to have a sort of knee-jerk aversion towards anything military, then the world will consequently be a more irenic place. This concerns me as a psychologist and educator, because history provides scant evidence that war can be avoided by having either peace or antimilitarism as goals unto themselves. Neville Chamberlain's overtures toward Nazi Germany prior to World War II provide one of the most salient counterexamples to this nostrum.

This is not to suggest that a careful study of what conditions precede peace within or among nations is not the legitimate province of a high school or college curriculum. But if we really want to teach what distinguishes peaceful societies from aggressive ones, or tolerant ones from those hell-bent on "cleansing" themselves of racial, religious, and ethnic diversity, then I prescribe we consider the empirical case: that what the most stable and domestically peaceful nations have in common is a viable economy with a commensurate "commercial class" of citizens.

Happily, in free societies, individuals are able to choose identities that center upon human action as opposed to an unchangeable history. Eventually, we come to think of ourselves primarily as psychologists, carpenters, or grocers instead of Germans, Catholics, or Serbs. The psychological freedom this gives one is no small thing, especially if the person is born into what he rightly or wrongly perceives to be a persecuted caste. It allows him to see himself as the best electrician in town instead of, for instance, ruminating about being a persecuted Moslem and declaring a jihad forthwith.

This tendency for individuals to develop utile self-concepts also separates them from

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stereotypes in the eyes of others. For example, there are relatively few Americans whose prejudices would cause them actively to avoid, let alone persecute, the best accountant in town because she is Hispanic, the best mechanic because he is black, or the best grocer because he is Korean. Rational self-interest engenders tolerance: the fact that we tend to value and identify with others for their respective skills or professions. As a result, we overlook the inconsequential differences among us, such as race, creed, or ethnicity.

On a larger scale, commercialism amidst freedom requires finding common and reciprocal needs across the various racial, religious, and ethnic constituents that exist both inside and outside of a heterogeneous society. Thereby, it is a more potent psychosocial inhibitor against civil war, military adventure, or institutionalized persecution than is any church, government, or army. Businesses are destroyed during domestic upheaval; import/exporters loathe whatever restricts trade among nations; and merchants crave as many customers as they can get. Hence, they resist anything that might result in civil revolt, international war, or whatever might arbitrarily exclude one group of people from doing business with another.

But when economic activity is outlawed or severely retarded by government intrusion, people are largely deprived of the opportunity to "become," so their senses of identity remain doggedly tethered to rigid and irrational lines of caste, ethnicity, religion, or tribalism. And herein lies the danger, because as scarcity always fills the void where a vital economy would otherwise operate, political and social unrest festers, ready to be exploited by those who seek dominance over their fellows. In the absence of property rights, each group will lay claim to the paucity of resources by reference to their ostensive historical predominance over the other, or even appeal to supernatural entitlements. Under such conditions, aspiring despots saw and nurtured near-maniacal levels of loyalty and cohesiveness among their homogeneous constituencies by scapegoating the blame for bad times across strictly secular lines: tribe against tribe, religion against religion, nation against nation.

This is precisely what is happening in places like Somalia and the old Soviet republics. Governmental inhibitions have retarded free enterprise and its requisite division of labor, allowing people the luxuries of prejudice, hate, and bigotry amidst the deprivations of hunger, disease, and pestilence. Conversely, the United States and Canada do not share the world's longest undefended border because their peoples practice pacific thoughts about one another. Instead, the historical peace between both countries is born of stark commercial interests. Likewise, Germany's Mexican production of Volkswagens for sale in the United States, or Japan's American production of Hondas for sale at home, does more to guarantee peace among nations than can all the good vibes in the galaxy.

In the absence of commerce, the various constituents of a diverse society revert to their most primitive senses of self. Unable to be butchers, carpenters, or storekeepers, they identify with groups made of rigid caste and mere happenstance. They are Catholic instead of Muslim, Serb instead of Croat, or black instead of white, each predisposed to blaming the other for any lack of prosperity. When such mayhem is unleashed, it cannot be squelched by armies or "peace-keeping forces." A nation that relies primarily on a militia to control human congress is the very one that is most likely to erupt into civil war at the first lapse in martial order.

Global harmony is not the by-product of kind thoughts, friendliness, and promises to share with one another; it is the direct product of human industry and prosperity. Peace tends to break out when people mind their own business. But this presupposes they have business to mind. Factions in places like Somalia, Haiti, and the Balkans will never consider peaceful co-existence until they have something more to lose than gain by continued war and hatred. □

THE FREEMAN
IDEAS ON LIBERTY

The Tribal Premise of Welfare Capitalism Illustrated

by Anne Wortham

Two years ago I was asked by the legal representative of a New York real estate firm (hereafter referred to as "RealFirm") to provide an opinion on a housing discrimination suit brought against the company by a black couple. The plaintiffs charged that RealFirm's use of only white models in its advertisement amounted to an act of discrimination against blacks. Informed by complaints brought in *Saunders* v. *General Services Corp.*, the plaintiffs' basic argument implied the following assumptions:

1. The absence of black models is the consequence of a decision to exclude based on racial preference.
2. The absence of black models indicates, on its face, a negative attitude toward blacks.
3. The exclusion of black models in advertising causes injury to blacks.
4. The exclusion of black models causes readers to believe that blacks are not invited to purchase the product (RealFirm apartments).

The charge assumes that a business that uses only white-model advertisement is by definition not addressing black consumers, and that the failure to address black consumers is racially discriminatory. Attorneys for the plaintiffs argued that the Court could resolve the question of whether the newspaper advertisements indicate a racial preference for white residents "simply by determining whether the total exclusion of black models 'indicates a racial preference to the ordinary reader' "— a test required by the Fair Housing Act.

I reviewed the case with the understanding that every advertisement and every price tag brings bad news to consumers who cannot afford to pay the price asked. RealFirm's ads brought the bad news that not everyone could afford to rent the apartments offered. Among those who could not afford to rent were blacks who earn less than $35,000. This would be the case whether or not the ads were racially "integrated." The RealFirm advertisements were bad news only for those who desired such a residence, but lacked the resources with which to transform that desire into reality. It was of no consequence to consumers who had neither the desire nor the wherewithal.

To be sure, there have been advertisements whose racist caricatures brought the bad news that the advertiser was prejudiced against blacks as a group. However, nothing in the RealFirm ad addressed the racial characteristics of potential renters. Although all of the models in the ad were

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white, their function was to symbolize the lifestyle of the potential renter, not to represent the racial preference of the realtor. The message of the ad was not race-based, but class-based.

One could conceivably argue that the lack of black models in the ad represented the lack of a significant percentage of upper-income blacks who could afford the product. A plausible argument might be that since most blacks cannot afford the rents at the apartments, it would be pointless to suggest that they could by including black models in the advertisement. But RealFirm's choice of models was not meant to be "representative" of the greater percentage of whites among upper-income renters. On the contrary, white models were used to represent the *neutral* consumer within an income bracket, not to match the income differences between blacks and whites, or to send a message of exclusion to potential black renters.

This line of reasoning carried little weight in the face of the reinforcement the plaintiffs took from provisions of the Fair Housing Act and the policies of public agencies such as the New York City Department of Consumer Affairs. The department's position was that "the omission of African-Americans from ads for luxury goods is an important factor in how whites perceive blacks and how blacks perceive themselves. . . . While only some of the whites viewing ads for luxury products might actually be able to afford them, at least all whites, no matter what their origins, can imagine themselves in the pictures they see in these ads. The exclusion of African-Americans from most of these scenes in our major media, however, keeps them from even imagining themselves in such milieus."

Patterns of Consumption

The problem with this position is that its reading of the psychology of black consumers contradicts the consumption patterns of blacks. First of all, since the use of white-model advertising has not motivated blacks in all of their previous history to refrain from purchasing or seeking to purchase a given product, there must be other reasons for purchasing the product than whether it is represented by a black model. Secondly, the self-projection thesis assumes that blacks cannot imagine themselves in scenes that are populated by white models. But clearly the extent to which blacks are able to imagine themselves in all-white scenes is borne out by their consumption patterns. For instance, although Sears Roebuck was characterized by the New York Department of Consumer Affairs as using minorities "selectively," in its catalogues, 10 percent of black households made purchases from Sears in 1990, as compared with 14 percent of white households. Although only 4.6 percent of the 22,685 models shown in 157 catalogues reviewed by the Department were black, 32.5 percent of black families made a catalogue purchase in 1990. The insignificance of the racial characteristics of models in advertising is also demonstrated by the black tenants at RealFirm's apartments who obviously imagined themselves as renters despite the appearance of white models in the ad for the apartments.

The plaintiffs also argued that the absence of black models caused "ordinary" readers of *The New York Times*, in which the ad was published, to believe that blacks were not invited to purchase the product. Those "ordinary" readers were most likely to be persons in the upper-income brackets, whose education ranges from some college to advanced degrees, and who are employed in a range of occupations from white-collar office worker to corporate executive officer. From what we know about differences in the socioeconomic status of blacks and whites, as well as lifestyle patterns, it is plausible to assume that the majority of these ordinary readers are white. From what we know about the lifestyles of the social classes, we can hypothesize that while the incomes and occupational status of blacks are lower than that of whites, it is likely that the black readers either share or aspire to a lifestyle comparable to that of whites in the same class. For as researchers have found, as members of an ethnic group move up the socioeconomic ladder, they become more middle class in their expectations, standards of living, lifestyles, and values.

Correlation Does Not Mean Proof

A basic principle of social science research is that the existence of a correlation between two variables (the more of one variable, the more of the other; or the more of one, the less of the other) is *no proof* that one of them causes the other. Some other variable correlated with them may be the real cause. In that case the original correlation, though real, is *spurious*: it does not indicate a true causal relationship. Consider this example of a statistically accurate statement which points to a spurious relationship: Single people eat more candy than married people. Why? Not because marriage affects the appetite, but because the unmarried part of the population includes children, who generally eat more candy than adults do. This is determined by calculating the original correlation between marital status and candy consumption while holding constant the third *control* variable of age.

The arguments of the plaintiffs and statements by their expert witnesses abound with spurious assumptions that may be summarized as follows:

1. The more racially integrated real estate advertisement is, the less likely black consumers will believe they are excluded from the offering.
2. The less racially integrated an ad, the more black readers feel humiliated.
3. The perception of discrimination is evidence of actual discrimination.

The assertion that black readers view white-model ad as evidence of the realtor's preference for white tenants implies that blacks behave only in terms of their racial identification to the exclusion of their class interests. In fact, like other ethnic groups, blacks behave in terms of the interaction of their ethnic group status and their social class status, and it is often difficult, if not impossible, to fully separate out the effects of each of these variables in isolation from the rest.

Social inequalities exist between the races, while at the same time class differences within racial groups create divisions that are sometimes hard to bridge. This is illustrated by the polarization within the black community based on divergent experiences of two growing segments of the black community: hardpressed lower-class families headed by women versus upper-middle-class families with working fathers (and often also working mothers) accustomed to the secure and comfortable lifestyles enjoyed by whites of their class.

The overwhelming majority of the research on the reactions of blacks to advertising has to do not with the *reaction* of blacks to white-model advertising, but with their *attitudes* about integrated advertising. Various studies show the following: that black and white reactions to advertising stimuli are highly similar; that blacks tend to evaluate both integrated ads and black-model ads rather similarly; that while black consumers tend to react positively to black-cast television commercials, this does not affect their decision to purchase the product offered. Two important facts about black reactions to integrated advertisements emerge from the limited research conducted so far: that using black models in an advertisement does not produce a universal response in blacks; that even though integrated advertising may be designed to inform black consumers that "their kind" is being invited to purchase the offering, their reactions to integrated advertising appeared to be independent of their perceptions of the reasons why advertisers introduced it.

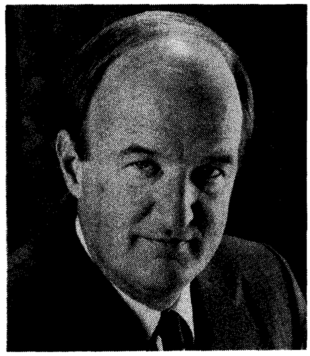
Pioneers in the practice of integrated advertising apparently interpreted the absence of criticism from blacks to mean that black consumers in general were reacting positively to their ads. But when well over a fourth of the black people they interviewed expressed negative feelings about such ads, there was reason to question the advertisers' assumption. Instead of perceiving a message of humanitarianism on the part of the advertiser, most of the consumers viewed the advertiser as being interested in selling the product to more people, particularly black people. Many saw this as tokenism motivated by greed. Others see the depiction of blacks in advertising as the reinforcement of stereotypes. Researchers at the New York City Department of Consumer Affairs report that although all the minorities they interviewed in the advertising and modeling industries want to see more minorities in advertising "there exists a wide divergence of opinion as to when, how, and where minorities ought to be depicted in advertising."

Since the studies above are of unrepresentative samples of black consumers, their results cannot be generalized to the national population. However, the findings do suggest that if courts are going to define housing discrimination in terms of the response of blacks to the biological characteristics of models in real estate advertising, they must first determine what that response is; whether it is universal; and whether it is independent of people's perception of the motives of the advertiser. Even if such data were collected it would have no bearing whatsoever on establishing whether discrimination in housing has occurred. That can only be established by an investigation of whether the advertiser refuses to enter a transaction with prospective tenants on the basis of their race.

Perhaps this explains why in its comprehensive 1989 study of the past 50 years of the status of black-white relations, the National Academy of Science's Committee on the Status of Black Americans makes no mention of the impact of advertisement on the attitudes of blacks. The Committee identifies three major sources of the persistent residential separation of whites and blacks: discrimination, black and white preferences for ethnically homogenous neighborhoods, and socioeconomic differences between the two groups. In its analysis of data on discriminatory real estate practices the Committee makes no mention of real estate advertising as such a practice. I interpret the omission as an indication of the failure of researchers to establish that the underrepresentation of blacks in real estate advertising constitutes evidence of discrimination. Researchers have placed more emphasis on actual discriminatory practices, such as steering black homeseekers away from predominantly white neighborhoods and into predominantly black areas.

As I noted above, logically the charges of discrimination against RealFirm are irrelevant. But sociologically, they are enormously significant as yet another occasion in the ongoing struggle between competing definitions of rights that fuels the conflict between claims-making groups who seek access to important social institutions and facilities such as mass media and the judicial system that control social definitions and meanings. It has nothing whatever to do with capitalism and everything to do with the transformation of American society from free market economics to economic and political collectivism. This transformation is not progressive, but represents the continued resistance to the demands of modern civilization. It reflects the desire by many to return to a world based on what today is called "positive entitlement"—the recognition of membership in or association with a primordial or ascriptive group as the basis of claims on, allocation of, or control over material rewards, positions, honor, associations, decision-making, or participation. It involves the recognition of racial, religious, or ethnic groups as distinct subpopulations having group rights that must be protected and fulfilled. It is an assault on the legal order of capitalism which holds the right to property and freedom as supreme, and its principle of justice which requires that men give or take only what they deserve, that they treat other men as independent equals, and that their relationships are the product of free, voluntary exchange.

When a society develops an economy in which group membership is granted primacy over productivity, the premise at work is what Ayn Rand called "the tribal premise of economics"—"the notion that wealth belongs to the tribe or to society as a whole, and that every individual has the 'right' to 'participate' in it." The case of RealFirm illustrates the extent to which the tribal premise has beaten back the "spirit of capitalism." □



An Ignoble Prize in Economics

"No sovereign government can be bankrupt as a result of debt in its own currency."
—Robert Eisner, *New York Times*, March 19, 1994

Let me be the first to nominate Robert Eisner, economics professor at Northwestern University and former president of the American Economic Association, for this year's Ignoble Prize in Economics. Eisner's article in the *Times*, aptly entitled "Off Balance," achieves a unique status in economic history. It contains more errors per column than any editorial ever published! I counted 15 mistakes, miscalculations, and misconceptions in the article, amounting to one error per column inch.

The subject is the federal deficit, Eisner's pet peeve. In his mind, and in the eyes of most of his colleagues, there is no deficit crisis. Never mind that the national debt has reached an astronomical $4.4 trillion, increasing at an average compounded growth rate of 7 percent over the past forty years. Don't worry that the federal government has irresponsibly failed to balance its books since 1969. Don't concern yourself with the fact that interest payments account for nearly 20 percent of federal revenues, a percentage that will invariably increase as interest rates rise. According to Eisner & Co., the deficit is no economic time bomb, it's a false alarm.

The Federal Debt: Asset or Liability?

Some of Eisner's statements are fantastically naive. For example: "The greater a person's debt, given his assets, the less his net worth; the greater the Government's debt, the greater the people's net worth."

Say again? Eisner ought to get out of his ivory tower and go down to the Chicago Board of Trade, where T-bonds trade. He would learn that his assertion is only true if the price of government securities stays constant or increases. Yet, as bondholders painfully discovered in the first half of 1994, prices of Treasury securities can fall sharply in the face of rising inflationary expectations. Indeed, excessive deficit spending can drive up interest rates and accelerate the collapse in bonds, as the inflationary 1970s demonstrated.

The Potential for National Bankruptcy

No sovereign government can be bankrupt as a result of debt in its own currency? Perhaps Eisner should stop by the history department at Northwestern and obtain a list of governments whose debt markets have collapsed over the centuries due to

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runaway inflation: Germany, Austria, France, Hungary, China, Brazil, and Peru, just to name a few.

Eisner will undoubtedly be surprised to learn that there is no bond market in *cruzeiros* in hyperinflating Brazil. Like many Latin American countries, Brazil can only finance its borrowing in U.S. dollars or other foreign currencies. Even then, many Third World governments defaulted on their dollar debts in the 1980s. Refinancing and moratoriums are technical terms for bankruptcy. Textbook writers Edwin G. Dolan and David E. Lindsey soberly declare the reality of the matter: "Creating new money to cover the government deficit is the source of runaway inflation, at rates of hundreds or even thousands of percent per year, that devastated such countries as Bolivia, Argentina, Brazil, and Israel in the early 1980s."[1]

Eisner's statement, "Government's debt is the liquid assets of the American people," is true today but may not be true tomorrow. Those "assets" can quickly lose value and become illiquid in a collapsing bond market. In fact, in the 1970s, Treasuries lost half their real value and occasionally faced "no bid" days. There are many scenarios which could bring about another round of "no bids" on T-bonds and even T-bills. A devastating recession, a collapsing dollar overseas, resurging inflation, a debilitating war, loss of tax base, etc. Washington has done a good marketing job in encouraging millions of Americans—including conservatives who normally oppose deficit spending—to buy "savings" bonds and Treasury securities, but the Treasury market could face a treacherous future if U.S. finances get out of hand or the economy crumbles. Given the high level and short-term maturity of federal debt, trouble could arise unexpectedly.

I would agree with Eisner on one point. National bankruptcy is not imminent. As Adam Smith once said, "There is much ruin in a nation." We have a long way to go before the government runs out of its ability to dupe the American public into funding the deficit. The timetable in Harry Figgie's bestselling book, *Bankruptcy 1995* (Little, Brown, 1993), has been proven way off the mark. The federal deficit declined last year and is nowhere near the $730 billion level Figgie predicted for fiscal year 1994. Nor are the country's finances in such dire shape that a fiscal crisis can't be averted. A healthy tax cut, privatization, and a couple of years of budget surpluses would do wonders to the economy. Mexico was in far worse shape than the U.S. was in the 1980s, and it turned itself around. Today it is running a budget surplus.

Crowding Out and Economic Malaise

Right now the more serious effect of deficit spending is on economic growth. When billions of dollars in private savings are funneled each year into government coffers via the purchase of Treasury securities and U.S. savings bonds, economic growth suffers. Even Paul Samuelson, a fellow Keynesian, acknowledges this fact: "Perhaps the most serious consequence of a large public debt is that it displaces capital from the nation's stock of wealth. As a result, the pace of economic growth slows and future living standards will decline."[2]

Fiscal mismanagement is one major reason U.S. economic growth has been near the bottom of industrial nations since World War II. Inflation and high taxes discourage saving, investment, and capital formation. By law, Social Security and other federal trust funds must invest solely in government securities. Imagine the favorable impact on Wall Street if $1 trillion in Social Security and other trust funds could be invested in U.S. stocks and bonds!

Crowding out is real. The Treasury market has grown so rapidly that it is now the world's largest financial market and as such systematically undermines the ability of private corporations to raise the capital necessary to produce new goods and services, adopt new technology and production processes, and create jobs. Today federal, state, and local governments consume 85 percent of all new debt issues, forcing major private corporations to issue so-called "junk" bonds and pay 300 to 400 basis points above Treasury rates to raise much needed capital. "Junk" bonds are an unfortunate label imposed on a form of financing that has been responsible for much job creation and economic growth.[3] The real junk bonds are the Treasury securities, which transfer massive amounts of capital from the productive profit centers of free enterprise to the unproductive, unprofitable centers of government waste.

Crowding Out or Crowding In?

Of course, Eisner, the last of the Old Keynesians, rejects the notion of crowding out. He believes in "crowding in," that "greater spending means increases in sales, profits, orders for production and hiring of workers." Those are the *visible* signs of government spending, but what are the *invisible* effects? As Frederic Bastiat once said, "There is only one difference between a bad economist and a good one: the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen." If the federal government is doing the spending, that means there are fewer funds available for free enterprise to buy, produce, and hire. And if the spending is monetized by the central bank, the result is inflation. There is no free lunch, Professor Eisner.

The Growing Threat

Hans Sennholz best sums up the ill-effects of deficit financing and the potential for serious harm: "At first, [federal debt] may consume only a small share of the individual savings coming to market, causing a slowdown in capital formation and economic development. In time, the share consumed by its apparatus of politics tends to grow until it depletes all savings and causes economic progress to grind to a halt. In a final frenzy of spending, it may actually consume capital accumulated by previous generations, and thus cause economic conditions to deteriorate."[4]

Let's hope we never reach the final stage Professor Sennholz describes. But if too many political leaders buy the arguments of Robert Eisner and become complacent about fiscal irresponsibility, it could become a reality. □

1. Edwin G. Dolan and David E. Lindsey, *Economics*, 5th ed. (Hinsdale, Ill.: Dryden Press, 1988), p. 280. Dolan and Lindsey's textbook is one of the few textbooks which acknowledge the possibility of national bankruptcy.
2. Paul A. Samuelson and William D. Nordhaus, *Economics*, 14th ed. (McGraw Hill, 1992), p. 633.
3. An dispassionate assessment of the high-yielding corporate bond market can be found in Glenn Yago, *Junk Bonds* (Oxford University Press, 1991).
4. Hans F. Sennholz, *Debts and Deficits* (Spring Mills, Pa.: Libertarian Press, 1987), p. 76.

"Correction, Please!" Column Is Vindicated

In my May column, "The Mother of All Myths," I focused on a common error in the financial press that consumer spending represents two-thirds of all economic activity. In reality, consumer spending equals only about one third of total economic activity when spending at all stages of production are measured. I also pointed out that gross business investment is by far the largest sector of the economy, not retail sales as previous believed.

Good news! *The New York Times* has now vindicated my point. In a recent business page article, the *Times* changed their statistics. A reporter wrote that retail sales "tracks one-third of all spending in the economy," not the two-thirds they and other mainstream media had previously reported. However, the *Times* continued to interpret the data as if consumer spending were the largest sector. The article stated, "retail sales figures are volatile." (They aren't.) Consumer spending "can be a good indicator of how fast the economy is growing." (It isn't.) Better indicators of future economic activity are industrial production, fixed business equipment, construction, commodity prices, and other early-stage indicators. But the change is heartening and a good beginning.

—*M.S.*

BOOKS

Phantom Risk: Scientific Inference and the Law

edited by Kenneth Foster, David Bernstein, and Peter Huber

MIT Press, 1993 • 457 pages • $39.95

Reviewed by Doug Bandow

Socialism has been defeated almost everywhere in the world—except in the United States. And nowhere is the collectivist impulse stronger than in the environmental movement.

The intellectual case against the apocalyptics has long been overwhelming and is finally receiving serious media attention in the establishment press. Among the more recent books detailing the environmental lobby's fraudulent claims are Ron Bailey's *Eco-Scam: The False Prophets of Ecological Doom*, Michael Fumento's *Science Under Siege: Balancing Technology and the Environment*, and Dixy Lee Ray's and Lou Guzzo's *Environmental Overkill: Whatever Happened to Common Sense?*

Unfortunately, ecological alarmists like Vice President Al Gore continue to dominate the political process. They also enjoy ready access to the courts. The result is "two intersecting problems," write engineer Kenneth Foster and attorneys David Bernstein and Peter Huber. "The first is the great disparity between the ease with which a controversy about a suspected hazard can begin and the difficulty in resolving the nature of the connection, if any, between the suspected hazard and a health effect. The second is the havoc the resulting confusion wreaks in the courts."

Phantom Risk goes on to address these two issues in detail, utilizing contributions from biochemists, toxicologists, physicists, doctors, and other experts. Although the book is not directed at a popular audience, its objective analysis and measured tone should make it a powerful entrant in the ongoing environmental debate.

The first set of issues addressed by Foster and his colleagues are the most dubious—"hazards whose very existence is somehow in doubt." Despite the modestness of the risks, however, the public concerns have been enormous.

For example, many household appliances, such as hair dryers, give off electromagnetic fields and have been blamed for causing cancer. Given the pervasiveness of such gadgets, many Americans have become quite frightened by everything from utility powerlines to electric blankets. Kenneth Foster of the University of Pennsylvania surveys roughly four dozen studies, finding ambiguous evidence "of a slight increase in cancer risk that is somehow associated with electromagnetic fields," but worries "that 'something is there' might be just the accumulated effect of scientific noise." In fact, scientists have yet to identify any specific hazards. Moreover, even the worst case risks pale compared to those people regularly undertake voluntarily: smoking, for instance, or failing to wear automobile seat belts.

Of particular concern to the contributors to *Phantom Risk* is the distorting impact of such issues on the court system. Writes Foster: "In science one can draw no conclusions from unexplained phenomena or inconclusive studies. But in the courtroom it is sometimes enough just to raise questions. And these studies have done that very well."

Similar is the controversy over video display terminals, which also put off electromagnetic fields and have been blamed for causing miscarriages. The reports, writes Foster, "have been overwhelmingly—but not totally—negative, finding no links between use of VDTs and spontaneous abortion or birth defects." This doesn't mean that VDTs don't cause problems; rather, the difficulties are much more mundane, what Foster calls "ergonomic and psychosocial," particularly the fact that "many clerical workers using VDTs simply have lousy jobs." Alas, these issues are not amenable to judicial solutions.

Bendectin, sold to treat nausea and vomiting during pregnancy, has also been blamed for birth defects. Evidence of causation was dubious. Observe Louis Lasagna and Sheila Shulman of Tufts University, "the scientific evidence seems sufficient to rule out the possibility that Bendectin is a powerful cause of birth defects." But that didn't stop three juries from blaming Bendectin, effectively forcing the drug off the market. The problem here, Lasagna and Shulman explain, is the legal process, particularly the inadequate review of scientific evidence and the "all-or-nothing" nature of litigation, which ignores "the subtleties of causation."

Indeed, the legal process is at fault in all of these areas. Appellate courts refused to overturn a finding of liability, despite the contrary evidence, in a celebrated spermicide case. VDTs have so far generated only a handful of cases, but many more are in the offing. In contrast, thousands of claims were filed against Bendectin, which led Merrell-Dow Pharmaceuticals to withdraw its product, despite winning most of the court cases. The American College of Obstetrics and Gynecology complained that the result was "a significant therapeutic gap." Litigation over electromagnetic fields, including the mere *fear* of harm, has led to million-dollar judgments.

Perhaps even worse have been the abuses surrounding substances that pose serious dangers in high concentrations but little risk otherwise. *Phantom Risk* demonstrates that they are even more susceptible to the inflammatory claims of the apocalyptics.

Particularly illuminating is the chapter by Bruce Ames and Lois Swirsky Gold, both of the University of California at Berkeley. They survey eight major misconceptions regarding the risk of cancer from pollution. Contrary to popular myth, for instance, cancer rates "are steady or decreasing," they write. Animal testing at fantastically high rates of chemical contamination is of little value in predicting the actual risk to normal people. Ames and Gold also point out that most carcinogens are natural, not synthetic, and that the natural ones are more toxic. Finally, technology brings benefits as well as costs, and campaigns to control pollution, such as pesticides, have to consider the very real trade-offs involved. As Ames and Gold point out, "Efforts to prevent hypothetical cancer risks of one in a million could be counterproductive if the risks of the alternatives are greater."

While much of the discussion in *Phantom Risks* may at first seem abstract and academic, the chapter by Harvard University's Ralph D'Agostino and Richard Wilson on asbestos helps demonstrate the book's relevance. Many school systems, like that in New York City, for instance, are struggling with expensive asbestos removal programs. Litigation, too, has become an ever-present nightmare.

There is no doubt that asbestos, long used as a fire retardant, increases the risk of asbestiosis (fibrosis of the lung) and lung cancer, among other diseases, though smoking remains a far more important cause and the issue is quite complicated. D'Agostino and Wilson do a good job of helping the reader sort through the morass. For example, there are different types of asbestos fibers; some are less harmful than others. Equally important, it is level of dosage, not mere exposure, that creates the risk. As for schools, they argue, "the risks in question are in most cases exceedingly small," between one-fifteenth and one-two hundredth that of the annual risk of driving a car. At the same time, extensive removal efforts have "led to unnecessary fear and expense to the public." Finally, there are risks from asbestos substitutes, such as fiberglass.

PCBs, or Polychlorinated Biphenyls, are chlorine compounds. High doses have proved toxic to some animals, but do not appear harmful to humans. In short, concludes Renate Kimbrough of the Institute for Evaluating Health Risks, "claims of association, based on epidemiologic studies, of chronic health effects such as cancer and trace exposure to environmental levels of PCBs are unjustified." Not surprisingly, given the hysterical nature of much of the environmental debate, writes Kimbrough, "People have overreacted to possible hazards from PCBs at typical environmental levels."

Dioxin has become even more controversial, leading the EPA to evacuate the entire town of Times Beach, Missouri. Dioxin has been one of the leading causes of the apocalyptics, making any reassessment of the risks particularly sensitive. Writes Michael Gough of the Office of Technology Assessment:

> Any change in popular perceptions of dioxin would be a sharp challenge to the idea that cleaning up tiny amounts of chemicals in the environment will significantly improve human health. After all, if some scientists and many others were mistaken about the worst of carcinogens, perhaps they are also mistaken about other chemicals, for which evidence of carcinogenicity and human exposure is far less certain.

Gough's analysis suggests that, in fact, many people were mistaken about the risks of dioxin. Again, what *Phantom Risk* delivers is a detailed yet accessible review of the scientific data. Gough's conclusion, not surprisingly, is that early, hysterical charges were not backed up by later, serious research.

The book also devotes chapters to three celebrated examples of radiation exposure and their effects: the Three Mile Island nuclear reactor, U.S. nuclear testing, and the Ferwald uranium plant. All of these resulted in considerable fear, even panic; all also generated enormous legal controversy, particularly among veterans exposed to the fallout from nuclear tests. In all, the fears appear to have been overblown. Typical is the conclusion of George Tokuhata, of the University of Pittsburgh: "The study found no evidence of excess cancer deaths in the five years after the TMI accident. On the contrary, residents in the area within 20 miles of the plant had *fewer* cancer deaths than expected during the 5-year period."

Phantom Risk goes on to provide a summary round-up chapter of the legal status of these groups. There are a lot of cases, some good decisions, and many bad judgments and settlements. Hundreds of millions of dollars have been paid out by private firms and public agencies to compensate plaintiffs for harms that appear dubious at best.

The book's final section involves questionable medical theories. Marvin Romsdahl of the University of Texas covers the now largely discredited cases where cancer was blamed on trauma, such as a blow to the head. The issue well illustrates the problem of junk science. Writes Romsdahl, "interest in the possible connection between trauma and cancer developed not because of any scientific breakthroughs but because of great social changes associated with the industrial revolution," including worker's compensation laws.

Today's equivalent of traumatic cancers may very well be "Multiple Chemical Sensitivities" (MCS). Michael Luster, Gary Rosenthal, and Dori Germolec of the National Institute of Environmental Health Sciences critique what has become one of the most extreme claims of some environmentalists, that exposure to even otherwise seemingly harmless synthetic chemicals may cause neurological or emotional disorders. The result has been the usual raft of lawsuits that the courts are ill-equipped to handle. Many MCS victims do indeed seem to suffer distress, but causation remains unclear.

The difficulty in trying to resolve these sorts of problems in court is ably demonstrated by attorney Richard Cornfeld and Harvard Medical School professor Stuart Schlossman as they discuss the case of *Elam v. Alcolac*, which involved 31 plaintiffs claiming that chemical exposure severely depressed their immune systems. The result was a nearly $50 million verdict yet, complain Cornfeld and Schlossman, "the court did not cite any evidence of damage which any competent immunologist would accept." They argue that the litigation showcases the inability of juries to decide complex scientific questions and should lead to the development of new rules of evidence to cover these sorts of claims.

All told, the intersection of law and science has not been a pretty one. There are two separate problems, which, warn the editors, together create chaos: first, "much confusion, error, and ambiguity surrounds risk research, at least when searching for small risks"; second, we have "a legal system that sometimes raises more questions than it settles."

Unfortunately, there is no way to avoid some problems of this nature. Science is uncertain, experts make mistakes, the courts are open to everyone, lawyers have an incentive to file speculative cases, and juries are usually authorized to decide the facts of legal cases. Still, the process could be improved. Write the volume's editors:

> Probably the best that legal reformers can do is to suggest ways to help improve the quality of the scientific evidence that is presented in court. The goal is not to raise standards of proof to levels so high that no plaintiff could hope to win, but rather to ensure that the scientific testimony that is presented to juries is as reliable as possible. Expert testimony needs to be *verifiable*, and, where possible, *consistent with a consensus of scientific opinion*. It needs to address at least three issues: the existence of a hazard, the plaintiff's exposure, and the risks associated with the exposure. In legal terms, it needs to be more probative than prejudicial.

They go on to recommend eight specific changes, which deserve to be taken seriously by judges and legislators alike. For even our wealthy society, they worry, "phantom risk remains a diversion that is too expensive."

Phantom Risk is an important book—an indispensable reference for anyone desiring to confront the environmental apocalyptics who seem dedicated to litigating and regulating our society into ruin. Rather than offering political polemics, the book's editors and authors let their abundant evidence speak for itself. Which is precisely why *Phantom Risk* presents a challenge that the environmental lobby will find difficult to ignore. □

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Bankers and Regulators

with an introduction by Hans F. Sennholz

The Foundation for Economic Education, 1993 • 176 pages • $14.95 paperback

Reviewed by Robert Batemarco

"Money is different," we are told by practically every member of the economics profession, including many who stand tall against government intrusion in every other sector of the economy. This difference, in their eyes, legitimizes government provision and control of money as well as its regulation of those private institutions which create and lend money. The contributors to *Bankers and Regulators*, the eighth volume in the *Freeman Classics* series, however, find that line of reasoning unpersuasive. So will the reader of this book, when faced with its revelations of not only the adverse consequences of those regulations but also of successfully applied alternatives to government regulation.

The book consists of a lengthy introduction and seventeen articles, all of which, at one time or another, appeared in *The Freeman*. While one (a William Cullen Bryant piece critiquing usury laws) was written in 1836, most are of recent vintage, with over three quarters of them first published within the last ten years. The age of the pieces in this collection is of little consequence, as they are based on principles which remain as valid today as when they were first written.

Bankers and Regulators is divided into three sections, which roughly correspond to theory, history, and policy prescriptions.

By no means are these divisions airtight, however, as many selections provide the reader with all three. Hans Sennholz's article on the bailout of the savings and loan industry is a prime example. The longest piece in the collection, it is an extended narrative for which his mastery of economic theory furnishes a coherent explanation. How cartels inevitably break down, the distortions created by inflation, the moral hazard entailed by government "insurance" which defies every principle of insurance, and the ever-destructive impact of price controls (in this case on interest rates) are all clearly illustrated by the events described here.

Several themes crop up over and over again throughout this slim volume. Some, such as the destabilizing effect of restrictions on branch banking, are now commonly acknowledged in the mainstream literature. Where *Bankers and Regulators* stands out, however, is in its contributors' willingness to tread where no money and banking text would dare. Where else could you find a discussion of the impact of banking regulation on the distribution of income (Sennholz's previously cited piece on the S&Ls and E.C. Pasour's discussion of the federal farm credit system) or evidence that implicates the Fed in the deterioration of the financial condition of U.S. banks since its inception (Richard M. Salsman's analysis of the "too-big-to-fail" doctrine)? You won't learn that such universally accepted features of our banking system as deposit insurance, reserve requirements, the existence of a lender of last resort, and central banking itself, are not only unnecessary on theoretical grounds, but have been absent from other banking systems with no ill effects (Donald R. Wells' comparison of U.S. and Canadian systems) in the pages of *Business Week*.

In addition to the topics mentioned above, the international monetary system and credit crisis (Ken S. Ewert, Christopher Culp), fractional reserve banking (Morris Markowitz), abolition of the Fed (Ernie Ross, Elgin Groseclose), deposit insurance (Jeffrey Rogers Hummel, Kurt Schuler), free banking (Lawrence H. White, Donald R. Wells, and L.S. Scruggs), the gold standard (Joe Cobb), and electronic banking (Elizabeth Kolar) each rate at least one chapter of this collection. The volume is strong on history, making it suitable as a supplementary text in money and banking courses, texts for which almost never contain enough historical material for my taste. It is also infused with FEE's principled position that free markets are desirable for both practical and moral reasons. The reader of this volume will be well equipped to defend the position that money is no exception to the general case for free markets. □

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