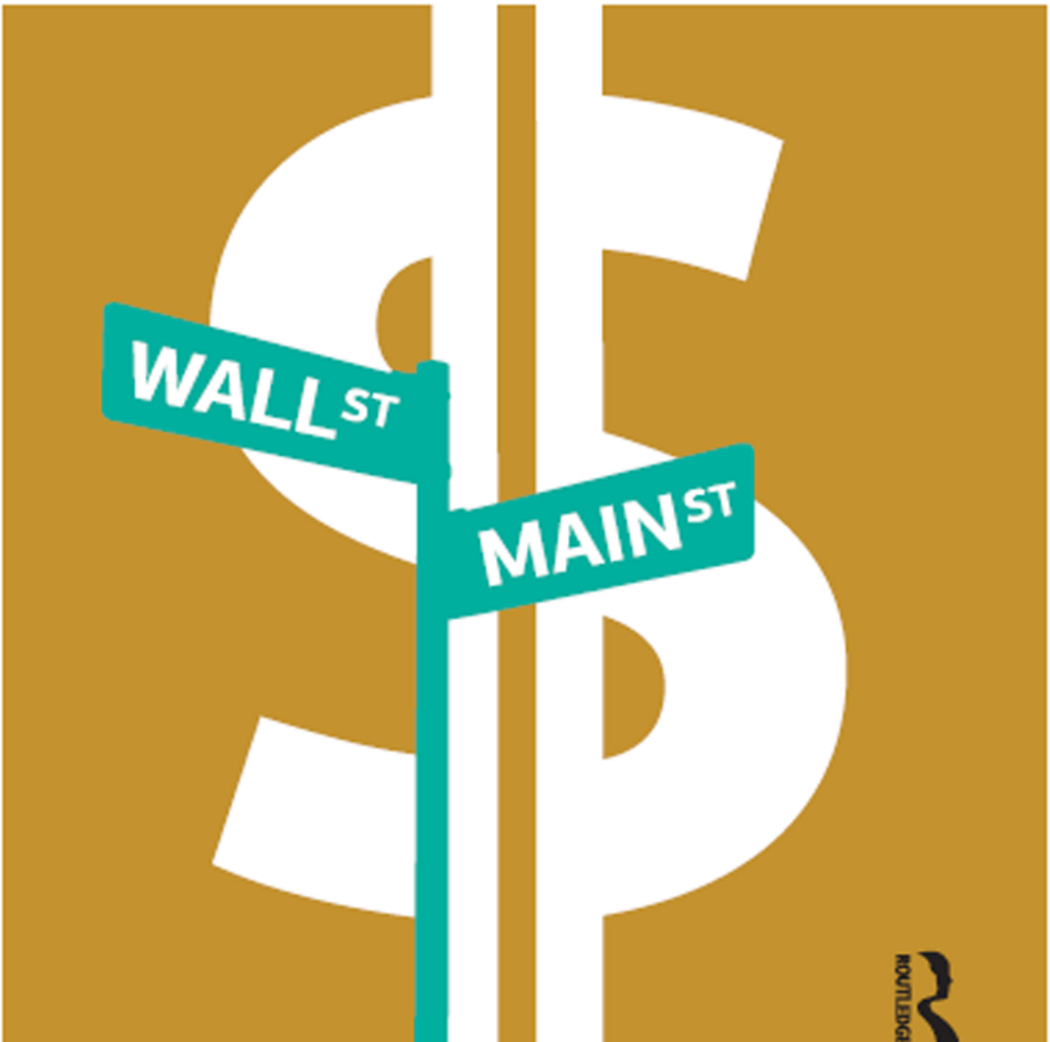
RAPHAEL SASSOWER

POSTCAPITALISM

MOVING BEYOND IDEOLOGY IN AMERICA'S ECONOMIC CRISES



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Dedicated to the memory of my teacher, Paul N. Rosenstein-Rodan

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Preface

The response to what will become known as the financial crisis of 2008 has been that we are in an uncharted territory and, therefore, it is difficult to find our way out of it. This book suggests that this economic territory has been charted and traversed for more than two hundred years, but that most of us have ignored its signposts. Perhaps some economists and some financial pundits are finding themselves in a crisis mode, but philosophers and political economists since Adam Smith have always understood the intricate and delicate balance that must hold among various frameworks and constituencies, from the political, legal, and social to the economic and moral. In order to avoid and overcome, if not completely eliminate, economic crises and ensure the smooth operation of market transactions many other elements must be in play: legal protections of contracts, social sanction of profit-making, moral approval (utilitarian or not) of the benevolence enjoyed by society as a whole, and some level of political leadership that controls through regulation the extreme risks that might undermine the entire market system. This is not new. What is new is that the current financial crisis has been in fact a crisis in the confidence we have in the marketplace and its self-regulation insofar as its excesses and integrity are concerned. Turning to the historical and philosophical framing of capitalism is no longer the exclusive luxury of idle scholars but must become a necessary stepping-stone for every citizen whose future prospects have been put into question in this financial crisis.

The appeal to our cherished goals of "life, liberty, and the pursuit of happiness" should carry with it the force the goals were meant to have as an incentive to participate in our political life and the institutions we have created to ensure its survival and progress. But what do these words and concepts mean when we are jobless, penniless, and homeless? How can we endow them with meaning and craft policies that would ensure their protection? Just as we curtail the freedom of our children to play with matches, so we must curtail the freedom of some of our fellow citizens whose actions in the financial markets brought about a brush fire that has consumed the fruits of our labor. One cannot escape dramatizing that which deserves to be dramatic: The trauma of the current financial crisis will be felt for years to come by millions of Americans (and many across the globe) until we find the kind of delicate balance that retains our fundamental freedoms with some restraining policies. Although natural disasters, such as hurricane Katrina of 2005, are unpredictable and therefore test our national resolve after the fact, economic disasters are predictable and preventable if the resolve is there all along. If we are to regain our footing, we must move beyond glib ideological mud-slinging and design a pragmatic set of solutions and policies that would ensure a long-term prosperity we have learned to enjoy. Looking backward, as I do in this book, is a crucial step in being able to look forward to a stable and just future.

To be an antifascist and procapitalist after World War II seemed both reasonable and prudent. Socialist ideology was subsumed under the fascist umbrella that ranged from Italy and Germany to the Soviet Union, and it was contrasted with an American ideology that was simultaneously democratic and capitalist. The fact that the American ideological umbrella leaked here and there was overlooked, because at least it sheltered us from disasters and provided us hope for a better future, providing military protection and financial support. Using the vestiges of the Austrian School of Economic Thought (from Von Mises to Hayek), the Chicago School (of Friedman and company) put forth an economic model that set the tone for future political debates and policy decisions domestically and internationally for the remainder of the twentieth century. What seemed reasonable and prudent then is unreasonable and imprudent today, as we can see from the outcomes of recent natural disasters (hurricane Katrina) and the ongoing crisis in the financial markets.

The root of the problem, as far as I can tell, is first and foremost an ideological confusion that inevitably leads to inconsistent and harmful policies. By the time we enacted legislation that collected taxes from our citizens and enacted the New Deal programs in the 1930s, we had lost the pretense of having a "pure" capitalist model for the economy, however one defines this purity (classical or neoclassical, neoconservative or laissez-faire). Put differently, by the middle of the last century we were no longer capitalists, but rather social democrats of sorts, providing safety nets for the needy and coordinating our national economic efforts for the Great War and for the success of Big Science projects. It is not that we have never been capitalists, but that we always were compassionate capitalists or moral capitalists, inspired, as I shall demonstrate, by no other than Adam Smith, who cared about our personal virtues and the ways in which they played out in society as a whole. One recent book by Lawrence Brown and Lawrence Jacobs (2008) comes closest at least to diagnosing one of the maladies that afflicts us today if not to my own prognosis: the ideological confusion of wanting no government whatsoever in the name of market capitalism and needing the protection of government policies and regulations in order to foster the smooth operations of the markets. Though their concern is more specifically with policies regarding transportation, education, and health care of the past three decades and how their unintended consequences enlarged government agencies and budgets, their continued concern to dissociate themselves from utopian extremism in the name of realistic and pragmatic solutions puts them right at the heart of my argument. It is also reassuring to find economists and political scientists who share the philosophical concern and historical perspective I bring to this discussion, searching, for example, for antecedent statements made in the eighteenth century by Adam Smith and some of his colleagues.

What I propose here is a pragmatic middle ground of sorts between two extremes in the spectrum of capitalist analysis: On the one end is Robert Reich (2007) who recognizes the ways in which "supercapitalism" has damaged democracy but who shies away from blaming anyone in particular, and on the other end is Naomi Klein (2007) who indicts Milton Friedman's Chicago School for using political "shock therapy" in order to advance the causes and goals of its version of raw capitalism. They both have their hands on the pulse of the contemporary global marketplace, and they both acknowledge the ideological elements that loom over any discussion of this or that economic policy. And unlike Brink Lindsey who advocates an "implicit libertarian synthesis" of the political "center," which is the result of the "left-right ideological conflict" of the past century (Lindsey 2007, 319), my own suggestions revolve around a different sense of American pragmatism that transcends ideological convictions, and as such is neither libertarian nor collectivist.

It is with this in mind that I wish to argue for a more nuanced view of the past two centuries and offer some concrete suggestions for the organization of the economy in the twenty-first century, with an ongoing emphasis on collective and personal responsibility. Instead of trying to straighten out or clear the ideological confusions that permeate our contemporary cultural landscape and that are readily seen in our interactions in the marketplace, I suggest giving up any simpleminded adherence to or interpretation of the capitalist ideology. There are two reasons that explain, if not fully justify, my recommendation. First, American pragmatism has in fact been a more persuasive and prevalent intellectual commitment than any other, and it provides a way to skirt ideological principles and instead adopt whatever means are best suited for accomplishing our tasks, whether they relate to the economy or to our religious beliefs. American pragmatism as it applies to the marketplace is an organic approach that respects the changing conditions under which humans interact and the ongoing civic development of their sensibilities. Second, capitalist ideology as commonly ascribed to Adam Smith is much more nuanced and complex, more open-ended and morally grounded than it has been portrayed by contemporary zealots. As such, it demands eschewing any simplified vision of "no government intervention whatsoever," for example, and supports the cultivation of community-based benevolence that can ensure the well-being and happiness of all members of a community.

Some myths are worth preserving, and some must be debunked. I hope in some ways to debunk those myths that are detrimental to the social cohesion of contemporary society. The myths of equality and freedom are useful because they inspire individuals and provide goals that government agencies try to attain. So, we have a constitutional freedom of speech, though in many other areas of our interactions our freedoms are limited by considering the effects they might have on others. We are not free to use hate speech that might entice someone to hurt another. Likewise, we are motivated to work hard in an environment that promises equal opportunity, not equality, to everyone. In both cases, the myths of freedom and equality are important benchmarks we adopt as a democratic and progressive society where we respect all individuals alike and hope to fulfill their dreams.

But here is the rub: Can all the diverse dreams of all individuals be fully fulfilled? How come only some are and some are not? There are those who suggest that it is really up to individuals to achieve their goals, regardless of the conditions under which they live. Others maintain that certain conditions, like poverty and lack of access to basic resources, such as a library or the Internet, make it impossible for some individuals to take advantage of the opportunities that might be available. Both views have proponents who give ample anecdotal evidence to prove their respective cases. But at the heart of the debate, when one arises in academic circles or among policy makers, is the relation between the individual and the community. It is not which came first, but rather which part of this relationship should take precedence over the other and in what sense.

The history of social and political thought is home to intellectual giants who have tried to tackle the questions relating to the position of the individual in society. Whether we think of Socrates, who felt that his obligation to his fellow-Athenians was stronger than his ability to flee his death sentence, Rousseau, who recommended foregoing individual wills for the sake of the social contract and the establishment of a General Will, or Mill, who insisted on the centrality of individual rights and liberties, they all have worried about protecting the integrity of individual choices amidst the well-being of society as a whole. So, regardless of their particular recommendations, they all brought to the fore the political framework within which moral principles and quandaries should be examined. One question that comes up when discussing these issues relates to the alternative methods or strategies of accomplishing individual choices: competition versus cooperation. And at this juncture the social Darwinists are most vocal: The biological notion of natural selection and the survival of the fittest are the best metaphors or analogies to be used concerning what happens in the social environment. Cooperation or collaboration among individuals as a strategy for survival and political progress is considered socialist or communist and as such flawed to the core, whereas competition among individuals is perceived as the cornerstone around which capitalist success and progress are accomplished in a democratic, market-driven society.

This is one of the myths I am trying to debunk here, especially when refocusing on the political and moral foundations of the relations and interactions among individuals rather than on the economic or financial features that are commonly emphasized (income and wealth, subsidies and taxes). In order to fully appreciate the myth of competition as the salient thread that binds together social relations, I will use examples from the intellectual community and the academy, the scientific community and the business world, and the religious community. In their respective ways, all of these communities support individual initiatives that end up collectively improving their members' conditions (however one measures support and improvement). In other words, all of these communities, in their own ways, provide the conditions under which individual success or fulfillment can be achieved in principle (reaching for the stars) and in practice (well-grounded and educated individuals who appreciate their social relations with others in their own and other communities). The success, though, depends both on emotional and cognitive sustenance given by the rest of the community. Because I believe that the emotional conditions that offer a healthier basis for individual action are themselves bound up with and to a great extent reflect the cognitive or intellectual foundation provided by society to its members, I will limit myself to them.

One way to trace this intellectual or cognitive sustenance is to focus on what has been called of late the knowledge industry, however broadly defined, because it is around questions of the production, distribution, and consumption of knowledge that the community plays a vital role in the success of individuals. In this sense, a child who is born with minimal knowledge, despite reincarnation theories on the one hand (Greek or Indian) and a set of theories about deep mental and linguistic structures on the other (e.g., Noam Chomsky), can develop and thrive in an environment in which there is ready and free access to knowledge. And despite whatever genetic makeup constitutes each individual (shall we ever discover a genius gene?), or the specific ideological commitment of the state (democratic, totalitarian, capitalist, or socialist), the technoscientific and cultural environments in which knowledge is distributed and consumed has an important effect on the development and success of each individual. There is, then, an intellectual and cognitive context into which we are born and from which we develop our own traits and strengths, what some have attributed to a Jungian-like collective unconscious.

How does this relate to debunking myths? On one level, it is clear that the accumulated knowledge of any given culture provides the framework for, and springboard from which, each and every member of that particular culture, no matter how poorly exposed to that accumulation of knowledge, moves forward. For example, exposure to television programs is almost as useful to children as the wealth of knowledge stored at Harvard University's library. In the age of the Internet, rural residents can just as easily find answers to questions that interest and affect them, from medical diagnoses (which, incidentally, should be corroborated by actual nurses and physicians) to soil quality and climate trends for farming purposes, as can those in urban centers possessed of access to experts and libraries. This is not to say that everyone is an expert in the postmodern age of the Internet (where the plurality of data gathering and their unregulated distribution enriches and overwhelms at the same time). Rather, this is to remind us all that we are consumers of data at every juncture of our life, and that those data were produced and compiled by other members of our society who are willing to share them free of charge, in many cases, and for a fee, in others, as a form of social investment in our collective future. So, the first myth to be debunked is that the individual, however conceptually central he or she may be in a democratic society (retaining rights and duties in relation to the community as a whole), is disconnected from the community as if an island unto her or himself; on the contrary, every individual remains an entrenched member of a community on which she or he is fully dependent for (intellectual and social) survival, sanity, and nourishment.

The second myth relates to the notion of genius, namely, the premium we put on the singularity and uniqueness of individual activities and successes. This is not to say that no one can invent something new or make certain connections not seen before (see the long history of approved patents in this country as well as the artworks in museums around the globe), but rather that these cases should be celebrated within a context or framework that has been established by others as opposed to the cult-like focus on the uniqueness of celebrities. Whether an artist or scientist, the individual actor is part of a community that nurtures such an activity, that has provided even the most rudimentary tools with which to produce a mathematical formula or a piece of art, and that has established a tradition and a history of such activities. There is an implicit communal support that underlies the potential of these individual activities.

The third myth is related to the first two and has to do with incentives, motivation, and competition, which are talked about as if they are the benchmarks one must adhere to in order to excel at whatever endeavor she or he undertakes, or as if without them no individual would ever excel or succeed. This is not to say that people do not compete or that we cannot motivate people to do this rather than that (with praise and money). Instead, this is to suggest that on the one hand, we do not operate simply on the basis of our self-interest and rationality (as we shall see in the extensive work of behavioral economists) but rather on the basis of a variety of other, noneconomic and at times nonrational impulses and hunches; and on the other hand, competition is at times detrimental to our success whereas collaboration or cooperation among individuals may enhance the productivity and success of each individual within that group (with all the problems of measuring success and attributing personal rewards). These observations lead as well to the kind of American pragmatism we see around us on a daily basis.

Finally, there is a fourth related myth that claims that the relationship between the private and the public sectors is one of separation and antagonism. Instead, I suggest that without the public sector or domain the private sector could not survive, let alone thrive. Whether it is the legal or political system that provides the safeguards for the capitalist marketplace, what remains true is that without a proper and secure framework the marketplace would collapse (as we are seeing with the financial markets in the present day). The support is as much psychological and cognitive as it is legal and material. And the support comes in a variety of flavors, from direct (laws and regulations) and indirect (constitutional provisions) government intervention, all the way to national mottos ("In God We Trust") and cultural cues (the conquest of nature with plastic surgery) that are just as influential in informing the individual what expectations the community has of his or her behavior.

In debunking some of these myths I wish, among other things, to shift our attention from the contemporary divide between the scientific, artistic, economic, and religious communities as if those communities are hostile to each other and think poorly of each other (as is evident when creationism and evolution are pitted against each other in secondary education). The baffling facts of the increased membership in religious institutions and the belief in God in a materialist, capitalist, and democratic America should be taken seriously. Instead of jettisoning the importance of religion and relegating it to ignorance, we, in the academic and scientific communities, should figure out what religious communities offer their members that we regularly ignore or undervalue. The bad taste left in people's mouths and minds regarding the experience of post-Katrina New Orleans suggests an answer at least to politicians: People want to have a world order that makes sense, to belong to a community that loves and cares for them, and to know that through the community (and God) they have attained a spiritual transcendence that includes hope to improve their personal lot through communal assistance. The answers are given daily and are full of faith and optimism regarding the future. Whereas the scientific and political communities scare the public with predictions of doom and gloom about the environment and keep the public confused over their own self-critical and tentative pronouncements, religious leaders offer prayers and after-life salvation, certitude and compassion. I am not suggesting that we should ignore scientific realities and rely exclusively on faith communities when it gets to leading our life, but rather that in order to deal with natural (scientific) realities (such as floods and hurricanes) we might need to complement our social and economic strategies with those learned by religious communities that use the community as a base or foundation upon which individual salvation (or survival or success) can be achieved.

Before outlining the major arguments of this book and the ways in which I intend to support them within chapters, I would like to briefly explain the term in the title of this book: *Postcapitalism*. In contrast to Robert Reich's *Supercapitalism* (2007), in which he argues for seeing our current economic situation as the latest stage in the evolution of capitalism (and one that undermines democratic institutions and principles), and to Jürgen Habermas's *Legitimation Crisis* (1975), which finds some historical similarities between postcapitalism and postmodernism as principles of organization, I see postcapitalism the way Jean-François Lyotard (1984) sees postmodernism. For him, postmodernism is not really "post" in any chronological or organizational sense—modernism first and then postmodernism—but rather a state of affairs that is and has always been parallel with modernism. This means that postmodern tendencies and principles—multiplicity of viewpoints, nonhierarchical comparisons, reconfiguration of existing data, case-by-case judgment without a permanent foundation, to name some—have been operational alongside modernist tendencies and principles all along. In the present context this means that postcapitalist features that promote collaboration and collegiality, that appreciate the social, political, and moral frameworks that legally protect the marketplace interaction among people, have been present from antiquity. These features must be acknowledged and cherished to ensure the prosperous and peaceful future of our planet. As such, these features constitute the kind of pragmatism that overshadows any strict adherence to a narrowly defined capitalist ideology. This kind of pragmatism, to be sure, transcends the specific commitment of any ideology (capitalist or socialist) and allows for the practical assessment of the efficacy of this or that government intervention in the affairs of its people: rescue schemes, bailout offers, regulations, and oversight commissions.

The first chapter deals with the original formulation of classical economics, or capitalism, as we have come to know it, so as to remind ourselves of the beliefs and ideas held by Adam Smith as opposed to their more contemporary, subverted variations in popular media of the West. Of course, when we deal with particular contemporary models of capitalism we tend to forget the extent to which they overlook the need for public support of private industry, whether it relates to mortgages or the knowledge industry. Reviewing Smith's own words about the need for communal and personal benevolence in order to ensure the operations of the marketplace and the happiness of individuals, we appreciate the intellectual trajectory that moved neoclassical economists to consider development projects in less-developed countries. What I wish to emphasize here is the entrenched political dependence of the marketplace on the legal and social frameworks that protect and subsidize it. In this sense, the classical marketplace model of Adam Smith and its current transformation into "supercapitalism" (in Reich's sense) must be acknowledged as a politically infused model with tax breaks and bankruptcy laws, for example, so as to find a pragmatic middle ground for policy purposes, one that acknowledges the responsibility of the state to protect and motivate its citizens. I use the philosopher Karl Popper to envision particular policy solutions to some current practical national problems.

The second chapter is devoted to a brief survey of the knowledge industry and its genealogy from purely academic endeavor that included skill-acquisition to an economic force that underlies productivity in the computer age. In looking at some of the features of this industry, I will focus on the production, distribution, and consumption of knowledge as if it were an economic model, so that the financial aspects of this industry will be understood. For example, should government subsidized research (Global Positioning System) be eventually turned over free-of-charge to corporations that profit from it? If the answer is yes, then citizens in fact pay twice for the same knowledge-based technology: once through their taxes when the Department of Defense, for instance, funds academic research, and the second time when they buy a device that uses this technology (cellular phones or dashboard maps). This example can move us back to reconsider the ways in which information and data are circulating in the marketplace, and the ways in which lifelong learning is attained. This might be an extension of or a contrast to the view that it is important to acquire knowledge for knowledge's sake, the view that promotes the love of learning, or the Greek ideal of the love of wisdom (philosophy). Contemporary academic institutions are being transformed from institutions of higher learning and the custodians and repositories of knowledge to factory-like assembly lines that feed the labor market. This transformation is sanctioned by the marketplace and guided by government agencies and the state, illustrating the kind of inevitable and inherent political entanglement with corporate needs and financing.

The third chapter delves more deeply into the relationship between individuals and the community in which they live, shifting our focus from competition to cooperation and collaboration. Beginning with a different appreciation of the survival of hunters and gatherers who needed each other's help, we shift to contemporary examples of intellectual-industrial production that is team based. The focus on venture capital firms and the system that supports them is meant to bring to light the extent to which capitalist ideals are themselves being transformed in the contemporary environment of investment in the production of knowledge. From domestic cases we move to national boundaries as being too restricted in the age of globalization, where international cooperation now becomes a necessity and no longer a luxury. Just as the unit of measurement in the corporate world is no longer the individual worker but the company as a whole, so in the larger context the unit of measurement is no longer a company or even a country but the entire globe. This move is in turn not limited to natural sources and labor availability (as we will see in Chapter 1 in relation to developmental economics) but also relates to ecological issues that end up affecting us all, regardless of our economic developmental stages (the Kyoto Accord, for example). But when the focus remains the knowledge industry, we must recall the postmodern notion of interlaced strands of data and insights that are recycled around the globe, from ancient herbal therapies to the conservation of land use, and as such may escape the traditional framework of intellectual property. As global networks of knowledge sprout and proliferate, private property-like claims are difficult to sustain, and in their stead we find ourselves in a new world order of "open-source" Internet communities whose global interaction and collaboration would have been impossible to envision a few decades ago.

The fourth chapter takes a different tone and tries to complement the focus on the intellectual wealth of knowledge and the cognitive enrichment offered by contemporary society with a discussion of the sociopsychological elements or features that enhance this richness. But here certain problems loom large, as individual gratification sometimes is not as immediate as desired or expected. Can one personally enjoy collective relief or rewards? That is, does the individual need to personalize the benefits that are present in society as a whole, or is it more likely that these benefits would be taken for granted (sanitation comes to mind in advanced societies)? Are we just as content or even happy when the group gets recognized (our club, team, or city) as when we individually win a prize (for beautifying a park or designing a landmark)? The complexity of these issues is fruitfully analyzed by behavioral economists and psychologists who explain human tendencies for reciprocal altruism, their ambivalences in regard to collaborative strategies (The Prisoner's Dilemma), and the inevitable concerns over free riders (those who contribute less than they take from the collective effort of their community). The issues are complex, because there is a tension between motivating and rewarding individual excellence while recognizing that the individual works within a group and therefore is always only as good as the company, corporation, or government agency is.

The fifth chapter takes the themes developed in the previous four chapters and attempts to pull them together in dealing with collective and personal responsibility. This issue dates back to biblical times when questions of guilt and culpability came up (the exodus from Egypt, the sins of Sodom and Gomorra in later times, for example), were revisited during the Nuremberg trials of the Nazis after World War II, and haunt us in the current environment of corporate crime (the corporation as a legal entity no longer shields its officers and directors, as seen in the Enron case). The importance of ethical questions in contemporary society is an issue that should be raised only if we believe that the community is the foundation of our existence and survival, of our past, present, and future. The individual actor is responsible to the community as a whole, and if there is higher accountability to one's conscience or one's God, it is a way of expressing the profound responsibility that ought to be ever-present in our lives. By the same token, indiscretions (whether personal, as in the case of personal bankruptcy, or corporate, as in the case of bailouts) are treated by the federal government as if they should be forgiven or at least taken care of. It is in this sense, then, that the community—with its obligations and rights, its responsibilities and interventions—seems to be the final guardian and arbiter of individual actions (successes and failures), rather than a superfluous burden (with taxes and regulations).

Concluding with these recommendations, as seen in the sixth chapter it seems that the American pragmatic landscape is ready to go beyond any ideological confines of the right and the left of the political spectrum and adopt a postcapitalist attitude and set of policies that respect individual choices and freedoms, while recognizing that their preservation requires the guiding hand of a government that respects the needs and aspirations of the rest of the community.

* * *

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—Breckenridge, Colorado
October 2008

Chapter 1

From Supercapitalism to Postcapitalism

As the twenty-first century unfolds, some, like former Labor Secretary Robert Reich, have commented on the transformation of our domestic economy into a global economy (Reich 2007). In using the term *Supercapitalism,* Reich emphasizes the shift from merely a capitalist or hyper-capitalist economy as the United States has developed it in the twentieth century with a certain level of democracy to a supercapitalist nation whose democratic institutions fail to catch up with the economy. In making his argument and illustrating the concentration of capital in fewer and fewer corporate hands, Reich decries the failure to ensure the good old liberal values upon which our democracy was founded. Though a centrist at heart—fiscally conservative and socially progressive—Reich seems to be following the basic lines of argument already proposed by the so-called Chicago School. Its founder, Milton Friedman, in turn, follows the neoclassical Austrian School and has always believed that with numerous free consumers interacting in the marketplace, decision-making processes (voting with one's pocketbook), including political ones, would remain democratic instead of becoming totalitarian (Friedman 1982).

Using numerous statistical data, Reich demonstrates that there is instead an inverse relationship between the triumphs of capitalism and the protection of citizens: We have moved from "democratic capitalism," where corporate interests worked in tandem with political and social interests ("what is good for GM is good for America") to a system where the economy is divorced from social and political concerns and corporate America seems disinterested in the welfare of the state (Reich 2007, 46–47, 126–127). In Reich's words, "The triumph of Supercapitalism has led, indirectly and unwittingly, to the decline of democracy" (224).

More specifically, supercapitalism thrives not only because of the concentration of capital in fewer hands, but also because of the advantages of deregulation. This alleged advantage, as we saw with the 2008 financial crisis is coming into question: The question is no longer how much deregulation, but how little, because the excesses of the past decade might prove impossible to fix. The push to deregulate this or that segment of the economy is a result of the competitive diversion of great sums of money to entice political campaigns and politicians toward policies of deregulation so that a competitive edge can be legally guaranteed to specific corporations or industries (Reich 2007, ch. 4). This line of argument goes deeper than the accusation against the abuses of Halliburton, for example, a corporate giant headquartered in Dubai that has continuously received no-bid contracts from the Department of Defense in supplying our troops in Iraq and Afghanistan. On the one hand, it offers a refutation to the classical and neoclassical economic models that have suggested that the more capitalist-like our markets become, the better off we would all be. On the other hand, it suggests that the kind of inside information regarding predictable government needs and specific regulatory exemptions benefit some corporations more than others and in the process co-opts political institutions to perform the will of financial giants, all without consideration of the welfare of the state and its citizens. As Reich brilliantly summarizes, "the fundamental problem does not, for the most part, involve blatant bribes and kickbacks. Rather, it is the intrusion of Supercapitalism into every facet of democracy—the dominance of corporate lobbyists, lawyers, and public relations professionals over the entire political process; the corporate money that engulfs the system on a day-to-day basis, making it almost impossible for citizen voices to be heard" (211).

Tony Judt's assessment of Reich's book suggests that the presentation of Supercapitalism as an inevitable next stage of capitalist growth, based as it is both on technological advances and an increased international marketplace, fails to address fully enough both its political and its personal dimensions (2007). The profound commercialization of human behavior, whether as consumers, investors, or producers, takes the social and moral dimension, however attractive it may be, away from the analysis, so that we end up with a picture of a world seen only through the prism of commercial growth. When economic problems arise, Judt reminds us, there is no responsible party at whose feet we can lay the blame for any crisis, for any kind of inequality in wealth (narrowly or broadly construed), because the inevitable march of capitalism is presumed to be value-neutral. But at some point we do object and might even protest. At some point the financial crisis becomes a national disaster, as even billionaire George Soros admits. And when this happens, a call for government regulation and intervention becomes reasonable if not necessary for the protection of the very system Reich calls Supercapitalism (Soros 2008). Cynically, this could be the only response aimed at protecting the continued growth and success of supercapitalism as bailout offers and government-backed guarantees and securities abound; logically, this is a call to reassess the political, social, and moral context within which the marketplace operates; and practically, this is a call that must be heard across the nation, a call to revise our outdated definitions and views of capitalism, super or not.

Perhaps it is this reassessment that Naomi Klein undertakes in her *The Shock Doctrine*. In general, her argument is that the Friedman-Chicago School "fundamentalist form of capitalism has always needed disaster to advance" (2007, 9). When natural disasters happen, as she demonstrates the world around, or when political crises are deliberately set in motion, there are opportunities for the private sector to usurp the powers of the public sector and thereby ensure financial gains, whether in Chile in the 1970s or in the current war in Iraq. She calls "these orchestrated raids on the public sphere in the wake of catastrophic events, combined with the treatment of disasters as exciting market opportunities, 'disaster capitalism'" (6). Although one can read her analysis as one large conspiracy theory where Milton Friedman and his cohorts are the villains, and although one might dismiss her analysis because it is overly polemic, her collection of data is so overwhelming that one must take pause. Unlike Reich's survey of the inevitable historical march of capitalism from one stage to another, following in broad outlines Marx's own original version, Klein's survey lays blame on a specific form of capitalist progress that is not simply exploitive in the old-fashioned Marxian sense (workers get paid less than they deserve, while the capitalists reap large profits) but coercive and cruel. In her words:

> This book is a challenge to the central and most cherished claim in the official story—that the triumph of deregulated capitalism has been born of freedom, that unfettered free markets go hand in hand with democracy. Instead, I will show that this fundamentalist form of capitalism has consistently been midwifed by the most brutal forms of coercion, inflicted on the collective body politic as well as on countless individual bodies. The history of the contemporary free market—better understood as the rise of corporatism—was written in shocks. (2007, 18–19)

In demystifying the capitalist myth of deregulation and freedom, Klein also explains that the Chicago School was not simply fighting the ghosts of

Marx and Marxism, but that in fact it was fighting the ghosts and realities of Keynes (who believed in the intervention of the state to overcome recessions and depressions and whose ideas were implemented in the United States as the New Deal of the 1930s), the social democrats in Europe (about whom more later), and the developmental economists (who set policies in the so-called Third World) (2007, 53). She is right on target here, for Marx and his ideas are always relegated to such an extreme interpretation as to make any policy consideration laughable; but the Keynesians had some success after the great depression, the social democrats are still dominant in post–World War II Europe, and developmental strategies are being revised and reassessed to this day. Could an unbridled capitalist marketplace thrive under all conditions? Is the promised freedom of all indeed protected once supercapitalism reigns? And is it appropriate to use the classical economic model of the eighteenth century as the blueprint for contemporary capitalism in a democratic state, especially in light of the fact that, according to Emma Rothschild, "the 'state' and the 'market' were not yet understood as the two imposing and competing dominions of society" (2001, 30)?

And it is exactly with this in mind that I move to reconsider Adam Smith. What we see with Reich and Klein as well as with other politicians and policy makers is a confusion regarding the success and prospects of capitalism, in its superform or otherwise. It is becoming more apparent that policies and laws (the political and legal systems) in fact support or undermine the growth of the marketplace (the economic and financial systems), whether through the regulation of workplace safety and pollution or through tax incentives. In short, the pretense that the marketplace is an isolated enterprise in our midst is more clearly seen as false; instead, it is an intricate system of checks and balances, of gives and takes, of signs and signals, all of which promote certain behaviors and transactions and prevent others. There are some who are sensitive to the complexities of the marketplace and the insights of behavioral economics (drawing heavily on psychology and experiments regarding human behavior, from incentives to the influence of others) and who suggest, as Richard Thaler and Cass Sunstein do, that perhaps there is a middle-way, an alternative way, or what they call a "new path" (Thaler and Sunstein 2008, 13ff). Their version of "libertarian paternalism" attempts to retain a great deal of choices for all consumers (regarding all facets of life) in the marketplace, while having the government provide a set of "nudges," literally pushing us to behave in some ways rather than others (on choices that range from diets and obesity to energy use and pollution), so as to improve our individual well-being and that of the entire country (4–6, 252–253). I mention this middle-ground variant, not in order to promote its specific new path, but rather to illustrate the extent to which the marketplace remains a centerpiece for most policy discussion, and its very existence is never fully questioned. This factual reality, then, sets the stage for our consideration and can therefore not be ignored or dismissed out of hand. Instead, I will be working through the origins of this standard-bearer of the modern agora, where all commerce takes place, where daily exchanges of goods and services, of goodwill and gossip, all take place.

When focusing on the marketplace, the centerpiece of the contemporary world of ideas and material possessions, the person in whose name both the protocapitalists and their critics advocate their respective agendas is being stereotyped and misrepresented. In what follows, I wish to remedy this situation and use Adam Smith's own insights to shed light on some potential remedies to our current maladies. Unlike Shakespeare's eloquent words in the hands of Mark Antony, I do not come to bury Adam Smith, but rather to praise him, honor the subtlety of his pronouncements, and see their lasting insights more than two centuries later. And in doing so, I am keenly aware of the assessment of some, like John Kenneth Galbraith, who admitted that Adam Smith "was categorical about almost nothing, and ever since economists have been at their best when they adhered to his example" (1958, 16). This is what is praiseworthy about Smith and what makes his insights so relevant to the landscape of American pragmatism.

The Capitalist Framework Revisited: Adam Smith's *Moral Sentiments*

At the heart of the argument of this book is the need for communal cooperation and collaboration in order to achieve personal success. Whether one speaks of the "knowledge industry" (more on this in the second chapter) in general terms or the specific ways in which the cumulative knowledge of a society provides the foundations for the education of present and future generations, one must recognize the communal nature of accumulating knowledge. The image of a lone inquirer or genius, detached from any contact with other members of society and its knowledge repositories (such as libraries and databases in the World Wide Web), is both false and misleading. I hope to explain in more detail this argument in the next chapter. In what follows here, I wish to reexamine the personal and social conditions under which this unfortunate image came into being. A convenient place to start is the works of Adam Smith, in part because of Rothschild's assessment that our contemporary world, not only owes much to the revolutionary and postrevolutionary times of the eighteenth century, but is in fact "defined, in important respects, by the events" of that period (5–6).

In league with other intellectual giants of the past, such as Karl Marx and Charles Darwin, Adam Smith (1723–1790) has captured the imagination of his contemporaries as well as that of generations after him, with the simple coinage of the idea of an "invisible hand" that oversees the marketplace without any regulation. The appeal of this image is twofold: On the one hand, it conjures the image of divine intervention as a benign yet sanctioning oversight that goes far beyond any human power, and on the other hand, it is comforting to know that everything in the marketplace works out smoothly without any laws and regulations, and without any palpable force of any arbitrary authority. As with religious institutions and conventions, the appeal is to a remote and divine authority whose worldly application remains open to sanctioned interpretations by powerful and dominant leaders. The very questioning of their interpretation of divine intervention or withholding becomes blasphemy. So, it is with the invisible hand that Smith ensures the workings of the marketplace, where individual actors find themselves interacting with all other actors according to simple principles that bring about some equilibrium if not harmony. The point here, as Rothschild reminds us, is "the pursuit of self-interest within rules, and the transformation of wealth into political power, including the power to transform rules" (5).

The image of the invisible hand has had the same effect on the collective psyche of Western culture as the image of the "survival of the fittest" or some sort of "natural selection." The image of our survival as a long and continuous battle among all the individuals within the human species, as if we indeed had to fight our way to survival each and every day of our miserable lives, has allowed the social Darwinists, as Richard Hofstadter (1992) reminds us, to explain and justify certain economic and social experiences that could be morally objectionable. For example, if the "fittest" indeed survive and the "less fit" perish, then it makes sense to see the rich among us as the surviving fit and the poor as the condemned unfit. This is not merely an empirical observation, but indeed serves as a moral judgment as well. Two steps downward in this slippery logical slope one can find the basis for the theory of eugenics (e.g., Francis Galton 1869) and for forcible euthanasia of physically and mentally infirm people. The point here is not the reality or the scientific foundation of biological theories and principles, as we shall see in the case of economics, but the power of images and metaphors, platitudes and sound-bites that misrepresent methodological debates or overshadow the fallible character of any scientific idea, theory, and principle. Unlike Rothschild's judgment that this particular image of the invisible hand is a "mildly ironic joke" (116) or that it is "the expression of Smith's faith in a Stoic providence" (131), I take it to be indicative of his scientific views (which Rothschild acknowledges repeatedly when speaking of the appearance of this image in his "History of Astronomy," 116). What distinguishes the scientific enterprise in general, and the scientific community at its best, in particular, is an eagerness to question everything, to be critical of everything posed, and to self-police any proclamation by the most powerful leaders of the scientific establishment. But such an image, a catchy one at that, is difficult to unseat or erase from memory.

When Adam Smith writes about the invisible hand in his 1776 landmark text *An Inquiry into the Nature and Causes of the Wealth of Nations,* it is within the context of the contribution that each individual makes to society without intending to do so. He says that "every individual necessarily labours to render the annual revenue of society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it" (*WN,* 423) In this sense, then, the individual actor, according to Smith, is not an altruist sacrificing himself on behalf of society, neither does he have a clear intention with regard to the results of his action. He is, for all intents and purposes, ignorant of the consequences of his actions, oblivious to the larger picture of the marketplace and how the Gross National Product (GNP) of his society is calculated. Smith continues to say that "by preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases"—here is the image—"led by an invisible hand to promote an end which was no part of his intention" (*WN,* 423). So, is the fact that he is unaware of the invisible hand a bad thing? Should he have noticed it? Would his awareness contribute to a greater "public interest"? Smith responds that "nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it" (*WN,* 423).

But as we read along his construction of the image of the invisible hand, we should notice how nuanced his argument is. I would say that it is not tentative, but qualified. He says "nor is it always the worse," rather than saying that it is always better, and likewise he says "he frequently promotes," rather than saying that he always promotes the interest of society as well as his own. I want to emphasize these slight modifications to Smith's own argument or construction of a vision in order to set the tone of what makes his vision at once so powerful and so misleading; powerful, because we immediately grasp the seeming contradiction that from self-interest public interest arises, and misleading, because we might thereby believe that the well-being of society as a whole depends on nothing more than the aggregate of the self-interests of its members. But we should remember here Rothschild's astute observation that Smith's concern with order is not necessarily one that is designed, either by government officials or the divine (135). This is similar to Jean-Jacque Rousseau's warning in his *On the Social Contract* that the general will of a community is not simply the aggregate of all the wills of its members (and is therefore not designed in particular ways nor can it ever be fully anticipated), but rather an emergent quality or framework that transcends individual wills ([1762] 1978). In fact, sometimes self-interest can hurt the society, when, for example, greed and cheating undermine public trust and the smooth operation of the marketplace.

Perhaps another reason why the invisible hand image is so useful and appealing at such a late stage in Smith's book (it appears on page 423) is that is helps explain an earlier discussion of the division of labor, which is the linchpin of Smith's entire book. The opening line of the book says, "The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour" (*WN,* 3). The division of labor makes a society more efficient and thereby allows it to increase its production, enlarge its marketplace, and eventually increase the wealth of its members. And here Adam Smith brings into play his sense of the "propensity in human nature" to "truck, barter, and exchange one thing for another" (*WN,* 13). Propensity, as we know, is a tendency and not an ingrained characteristic, so that even here, Smith is careful and qualified, not certain and dogmatic. Even if we grant Smith his view of human nature, what incentive would one member of society have to trade with another?

According to him (and this, once again, is an oft-cited passage), "it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest" (*WN,* 14). Smith removes here any sense of the mysterious or of divine intervention. Our commerce with each other is neither magical nor contrived. Instead, it is a logical consequence of the manner in which each member of the community *promotes,* to use Smith's term, his own interest. There is nothing wrong with this, he reminds us, and we shouldn't expect more than we are getting. The demystification of this process of exchange that eventually allows me to eat my dinner also allows me to enjoy it without pride or guilt. The emotional and moral dimensions seem absent in this context. As he continues to say, "we address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages" (*WN,* 14). This sounds almost like strategic manipulation, for we do have needs that can only be fulfilled, under the conditions of the division of labor, by others; yet, for Smith, the trick is to let the others believe that their "advantages" are the only ones that allow me to have my dinner. And sure enough, Smith the populist mentions meat first (as an expensive delicacy enjoyed by the rich), mentions bread last (which remains the basic nourishment of the poor), and positions beer in the middle (the lubricant that, when consumed in large quantities, gets the rich and the poor alike drunk).

"Nobody but a beggar," he admonishes his readers, "chuses [*sic*] to depend chiefly upon the benevolence of his fellow-citizens" (*WN,* 14). So, hard as he tries to keep morality out of his image of the butcher and brewer and baker who supply me my dinner, he ends up mentioning benevolence nonetheless. So, if it isn't "benevolence," then what is it? Can one simply close up the argument with "self interest"? Something else must be at hand to support this exchange, to ensure a certain common foundation that is logically and morally sound. When Immanuel Kant (1724–1804) sets up his "categorical imperative," he suggests that the reciprocity of human relations would follow the classical "golden rule" of doing unto others that which you want or expect them to do unto you (and vice versa). Speaking of "self love," Kant brings to bear reason and rationality, the means by which all humans can come to an agreement regardless of their differences: "reason, which should legislate for human nature, is used only to look after the interest of inclinations, whether singly or, at best, in their greatest possible harmony with one another" ([1785] 1981, 19). And with reason on our side, we can appreciate the "law" Kant proposes: "I should never act except in such a way that I can also will that my maxim should become a universal law" (14). Given his insistence that humans respect and not exploit each other, Kant explains that his maxim should be, "act in such a way that you treat humanity, whether in your own person or in the person of another, always at the same time as an end and never simply as a means" (36).

The dual notions of a moral law of behavior being imperative, that is, incumbent on all without exception, and categorical, that is, related to the form of one's action rather than its intended result, explain quite a bit about how Kant navigates between human nature as it is and social relations as they should be. Any action that is instrumental, that strategically seeks to accomplish some end at the expense of someone else (assuming a zero-sum game), is suspect because it could harm someone in the process without any assurances that its result will benefit all those involved. In his words: "the categorical imperative would be one which represented an action as objectively necessary in itself, without reference to another end" (25).

It is here that Kant's procedural and objective proposal comes into play, for he insists that if the process is fair and judicious no matter what the results end up being (given that they cannot be predicted in advance with certainty), then our actions could be justified both to ourselves and to others. So, he rephrases his maxim, his universal law, or norm: "act only according to that maxim whereby you can at the same time will that it should become a universal law" (30). It is with this in mind that we think of Adam Smith and how much he was influenced by and related to the moral thinking of past scholars. Was the invisible hand an image for a universal law or oversight committee that watches over the transactions in the marketplace? Kant's maxim would ensure that one would not cheat another because he or she didn't want to be cheated in return, namely, if they licensed themselves to cheat, they would also sanction someone else to cheat them in return. Here one's own interest, be he a butcher, brewer, or baker, is aligned with that of all others so that some harmony of interests—such as to be honest or to remain trustworthy—regulates each of his or her actions in the marketplace. As focused as Kant and Smith are on the individual actor, they immediately appreciate that there is a social context for personal decisions and behavior, regardless of emotions or intentions.

The strength of this rationalistic approach to human interaction is that it can be explained, discussed, and even debated. The common denominator is reason, which is easily generalized or universalized. Thus, one's own psychological makeup can be subsumed or regulated according to it. Reason is not a substitute for one's feelings or inclinations, but rather a procedural mechanism that provides common understanding among individuals and thereby reduces fear (of the unexpected and unpredictable) and the inherent distrust or alienation we have when encountering a stranger with whom we exchange goods or services in the marketplace. Perhaps what we have here is a false dichotomy between cold rationalistic calculations and human emotions, because, as Rothschild eloquently reminds us, during the late eighteenth century the "life of cold and rational calculation was intertwined with the life of sentiment and imagination," so that the one contributed rather than stood in contrast to the other (1).

What follows Smith's explanation of the exchange among people, and what remains overlooked by those who quote his line about the self-interest of the butcher, brewer, and baker, is the following startling line: "in civilized society he stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons" (*WN,* 14). This extraordinary admission points to two insights that, in my view, provide the foundation for Smith's actual view of exchange: On the one hand, there must be a sense of cooperation, and on the other hand, real friendship is difficult to come by. Whereas the former is the precondition for the smooth operation of the marketplace, an implicit assumption about the need for the help of others, the multitude, the latter points out his resignation about the few friends one can hope to make in a lifetime. Both insights, then, are about human relationships and to some extent transcend whatever simplistic assumptions are commonly made about human nature and the strategies with which individuals interact with others.

It seems that because the *Wealth of Nations* was written seventeen years after *The Theory of Moral Sentiments* (1759), Smith felt comfortable to use one book as the basis for the other. And those of us who ignore his *Moral Sentiments* might be missing the very foundation on which his classical model of the free exchange in the marketplace, the supply and demand features that determine prices, was built. But is the image of human nature similar in the *Wealth of Nations* and in the *Moral Sentiments*? As D. D. Raphael reminds us, this question was already posed by scholars in the nineteenth century. Citing some scholars of that period, Raphael explains that they all agreed that human actions were ascribed to selfishness in the *Wealth of Nations* and to sympathy in the *Moral Sentiments* (1985, 88). Were these two sentiments complementary or contradictory? Instead of finding Smith inconsistent, their consensus was (from a sociological rather than a psychological perspective) that the one feature of human nature was supplementary to the other, "so that, in order to understand either, it is necessary to study both" (Raphael 1985, 88). Whether one's rational "self- interest" is a higher or a lower moral sentiment in comparison to "benevolence" remains an open question; but what becomes clear is that both texts complement each other and that the chronological priority of the moral discussion provides a solid foundation for the economic one.

If my concern with the cooperative nature of the marketplace is correct, and if this presupposition is essential in allowing individuals to interact with a sense of economic self-interest, then their behavior is not only efficient (given conditions of freedom), but also sanctioned by the social conditions of their interaction. Put differently, if one assumes a harmonious social bond among individuals, however implicit, then any expression of self-love (or self-interest) can be tolerated, for it will not descend into a feeling of greed with its attendant negative connotation. My self-interest will be appreciated, in a Kantian sense, as a way for me to express my needs and for you to recognize them as such, no more and no less; and thereby you will be granted permission to express your needs and the ways in which I, or anyone else in the marketplace, might be able to meet them. We thus confront one another as a mutual-benefit society, a group of people who can identify with one another's needs, rather than as a group of suspicious or skeptical people whose every thought and action is perceived as strategic and possibly injurious to me in preying on the desperate expression of my needs.

Because Raphael's approach is to compare the two books from a sociological perspective, he can say that "sympathy and imagination in the *Moral Sentiments* are the cement of human society in forming socializing attitudes," whereas a "different kind of social bond, mutual dependence, is produced in the division of labor" (93). In both cases, then, the emphasis is on the conditions that bring about the bond among people; in both cases, the "cement" that glues together individual wills and actions allows us to see beyond ourselves and consider ourselves as part of a greater whole, a social fabric in which every move is related and responded to by others. Although Smith uses a different kind of cement in each book, and his emphasis and explanatory models are different, they are not inconsistent or contradictory: They are complementary elements that move us from the individual to society. Kant used reason; Smith uses emotions. One could think of Smith as reverting to some of Rousseau's notions about pity and human compassion being the basic human instincts as they were in the "state of nature" (thus before being corrupted by reason and civilization) that bind us together (Rousseau [1750] 1964). Or one could think of Smith as responding to Thomas Hobbes's dreadful view of humans in their raw and frightful brutality (Hobbes [1651] 1968). Instead, Smith constructs an ethical foundation, with moral sentiments, that could set the tone for how we have become the civilized people we are, exchanging our goods and services in a harmonious fashion with freedom and prosperity.

E. G. West reminds us (when editing the *Moral Sentiments*) that instead of seeing Smith's two works as containing an inconsistent view of human nature, one should appreciate that "in Smith's comprehensive and panoramic view of society, self-interest lives with perfect propriety side by side with Benevolence" (Smith *MS,* 30). Thus what Smith sets up as the three cardinal virtues of prudence, justice, and benevolence remain in the public domain, much like the ancient Greeks' sense of the social context in which such virtues can be tested and displayed. Hence, West explains Smith's economic motivations as they come up in the *Wealth of Nations* as "multidimensional," so that the "stoical instinct for self-preservation, was to him obvious enough. What was more interesting, however, was why men worked so hard *beyond* the requirements of their basic (caloric) needs" (*MS,* 41). And here what comes forth is a certain sociological analysis that is rooted in morality and aesthetics, where a certain balance or harmony among one's virtues provides, as we see later in the *Moral Sentiments,* social approbation.

In Smith's words:

> And hence it is, that to feel much for others, and little for ourselves, that to restrain our selfish, and to indulge our benevolent, affections, constitutes the perfection of human nature; and can only produce among mankind that harmony of sentiments and passions in which consists their whole grace and propriety. As to love our neighbor as we love ourselves is the great law of Christianity, so it is the great precept of nature to love ourselves only as we love our neighbor, or, what comes to the same thing, as our neighbor is capable of loving us. (*MS,* 71–72)

Right away Smith brings to the fore the Golden Rule and the sense of harmony that ought to guide our virtuous life. His sense of self-love is such that it must be condoned by our neighbors so that our fear of them or greed when interacting with them would not overrule our moral and economic behavior. When Smith brings up the benevolence of the butcher and the brewer and the baker, he is right in saying that it is not this particular virtue that is at work at the moment of exchange, but rather the virtue of prudence that guides and tempers their self-preservatory needs. In doing so, Smith does not diminish their other virtues, nor does he turn them into selfish human beings; rather, he reminds us that what accounts for the harmony of marketplace exchanges as a whole is a certain inner level of harmony among our virtues and the ways in which we give credence to them all.

It is with this in mind that Smith keeps on coming back to the theme of the social context in which humans interact and according to which our human nature is informed and receives feedback from others. I quote him here at length so as to dispel misconceptions about what he actually said and what he wrote in his two major texts. In an age of sound bites, one must stop and read carefully and at length. Here is Smith:

> The state or sovereignty in which we have been born and educated, and under the protection of which we continue to live, is, in ordinary cases, the

> greatest society upon whose happiness or misery our good or bad conduct can have much influence. It is accordingly by nature most strongly recommended to us. (*MS,* 372)

He continues to explain that not only is the safety and prosperity of the state dependent on our behavior, but that because we have been protected by the state and therefore owe it our best behavior, "its prosperity and glory seem to reflect some sort of honour upon ourselves" (*MS,* 372). We can appreciate right away the reciprocal relationship Smith draws between the individual and the state, where *safety* and *prosperity* and *glory* are interchangeable terms that should motivate us to behave honorably.

Instead of continuing with a close reading of the text, I shall round up this discussion with the image that Smith uses in this text. Whereas the image of the invisible hand from the *Wealth of Nations* provided generations of commentators with the justification for a prohibition on government intervention in the marketplace and for the free-for-all mind-set of classical capitalism, in the *Moral Sentiments* there is another image. This image is of the "impartial spectator," as Smith calls it (*MS,* 422). Smith admits once again, "concern for our own happiness recommends to us the virtue of prudence; concern for that of other people, the virtues of justice and beneficence." But these two sets of virtues are not separate: "Regard to the sentiments of other people, however, comes afterwards both to enforce and to direct the practice of all those virtues," so that the one does not overwhelm the others or does not make us forget them altogether. In his words, then, "no man . . . ever trod steadily or uniformly in the paths of prudence, of justice, or of beneficence, whose conduct was not principally directed by a regard to the sentiments of the supposed impartial spectator, of the great inmate of the breast, the great judge and arbiter of conduct" (*MS,* 422).

Worried about restraining the passions and acquiring in each and every one of us a level of balance among all our virtues, Smith keeps this image of the impartial spectator as if it were both a social and a psychological factor or constraint in our behavior. Raphael mentions this parallel (6, 41–43), but draws attention to some differences between Smith's image and Sigmund Freud's view of the superego as both parental and censor-like. Yet, if we cast this parallel in sociopsychological terms, then we can immediately appreciate Smith's concern for an "intimate" impartial spectator, but also one that can watch over all of us, and not only over this or that individual. However personal the admonition remains, its universality (in the Kantian sense of being categorical, that is, generalizable to all of us) means that it has the power for "self-approbation" as well as social approbation. We measure ourselves against this standard, as Smith says, because "it is this inmate who in the evening calls us to an account for all those omissions and violations, and his reproaches often make us blush inwardly" (*MS,* 422–423). This sounds very psychological indeed! But what are we blushing about? What are we accounting for? According to Smith: "both for our folly and inattention to our own happiness, and for our still greater indifference and inattention, perhaps, to that of other people" (*MS,* 422). So, it is not about some set of rules or moral standards we have violated, but rather that we have in the process also hurt others. The social dimension is ever-present in Smith's mind.

So much so, concurs West, that he brings the political dimension or context into the foreground without losing respect for individualism. Using the metaphor of "the great chess board of human society," quotes West, Smith acknowledges that "every single piece has a principle motion of its own," so that individual wills and desires are always present. (West 1976, 126) And sounding almost Popperian in his summary, West explains Smith's political vision as "a kind of pragmatic negative liberty which sees politics, in the constitution-making sense, as an attempt to reach compromise between individuals with admittedly different values. He had arrived, in other words, at the threshold of the open society" (127). Though "open," this society can function only if all participants recognize the differences of all others and allow them to interact as part of a "society."

It would be overstating the case if we were to move on to the next section and leave the impression that the image of the impartial spectator as a moral superego of sorts overshadows the image of the invisible hand. Perhaps the invisible hand belongs to the impartial spectator, and as such, it does influence or guide its oversight. And perhaps this is what Smith has in mind when he says the following:

> Though the standard by which casuists frequently determine what is right or wrong in human conduct be its tendency to the welfare or disorder of society, it does not follow that a regard to the welfare of society should be the sole virtuous motive of action, but only that, in any competition, it ought to cast the balance against all other motives. (*MS,* 482)

I take this statement to be crucial in appreciating not only how we should be reading the advice of Adam Smith in the twenty-first century, but also how we should think of all of our economic and social policies. That is, that one should not foreground one element or set of elements in relation to all others, but rather find a balance among them so that virtue can flourish. If there is competition, and if competition can bring about prosperity, it should do so while maintaining a certain balance with the welfare of society as a whole. Perhaps it would be helpful to recall, as Rothschild implores us, that "the interdependence of commerce and government, in this setting of regulated markets and interested officials, is at the heart of Smith's theory of economic reform, as it was for Turgot and Condorcet" (2001, 32). This kind of interdependence during the eighteenth century was more tilted toward the power of government officials, and therefore Smith's call for individual freedom was so essential at the time; it remains an open question, on pragmatic grounds, whether his call is as crucial still today.

Planning: Complementing the Marketplace

When speaking of the welfare of a society and the pragmatic strategies that would bring it about, one is not necessarily speaking of the welfare state as we know it today. It is true that the welfare of members of society can be protected or enhanced with legal regulations regarding safety and prudence and by social programs that provide some safety nets or that ensure some fairness in the distribution of income and wealth in the broadest sense of the term. This would include the provision of public goods, such as roads and bridges or what we consider the infrastructure of a nation, as well as security in the form of military forces and police and fire departments. The appreciation of Smith's concern for the well-being of others while maintaining a vibrant marketplace that allows for economic growth should ideally lead to a constellation of economic and political powers with a delicate balance between them. Should the marketplace be completely unregulated, or should there be some government measures that ensure the safety and welfare of society as a whole? With this question in mind we come to reexamine the foundation of the capitalist system as it has been tested and experienced over the past century in the Western world.

As one example, we examine the spectrum of time lines that is bracketed between the old Soviet model of the Five Year Plan and the quarterly American corporate report. Though it maintains a focus on current operations, the quarterly report is both shortsighted (failing to account for changes that take time to appear on the balance sheet) and misleading (representing financial conditions in the best possible ways to ensure favorable stock market trading). The peculiarities of quarterly corporate reports are such that some financial analysts refuse to rely on them and find their ongoing pressure on corporate officers to be detrimental to healthy planning and implementation. So, let us focus instead on longer-term planning and see the extent to which it counterbalances and provides an alternative to the standards of American financial markets. The advantage of the Soviet-like model in planning any sort of expenditure is, of course, that it allows for some infrastructure to be built before any results, in manufacturing or in agriculture, can be measured. The disadvantage, of course, is that at times this horizon may be too long under changing market conditions. A long-term commitment of this sort to capital and human resources alike might turn out to be misguided: How can one tell the future? How can one predict with accuracy what will happen in five years? By the time the plant is built its products might no longer be needed. This is true especially, as we have seen in the past few decades, when we build nuclear power plants that take up to twenty years between the submission of plans and the onset of operation at the facility.

The advantages of long-term planning, on the other hand, are numerous as well. A worker can plan on working in this or that factory for a long time (equivalent, in some cases, to the lifelong employment guarantees of the Japanese system). As a result, the worker can comfortably plan to buy a house (with a thirty-year mortgage), enroll the kids in the local school, and take out a five-year car loan that he feels secure in paying in full. This allows for a stable real estate market, proper planning for school districts (in terms of budgets and physical plant), and for the business community (from car dealers to hardware stores and restaurants) to know what to expect in the future. It is in this sense that long-term planning is useful and even essential for a stable economy.

The models of developmental economics throw light not only on what should be done in less-developed countries, but also on what can be done within developed countries. Though the issues might seem on the surface quite different—less-developed countries need an infrastructure, for example, that is already in place in developed countries—when considered in terms of the technological transformation of the economy and government intervention, it seems that there are more rather than fewer parallels that help reassess a "pure" capitalist system. For example, Kevin Murphy and his associates analyze the situation of an "imperfectly competitive economy with aggregate demand spillovers," so that a "good equilibrium" can be reached (Murphy et al. 1989). In other words, both the classical and the neoclassical models are too "pure" or "perfect" in their model presentations and are therefore less than "real." One solution to this problem, as Lawrence Boland has argued, is to revise the very conception and methodological approach to economics and turn them, if not on government intervention, then on an appreciation of a foundational "disequilibrium" of markets that may or may not eventually lessen (Boland 1986). This, incidentally, is more in line with Smith's own conception of the need for government intervention under certain conditions so as to ensure the fairness of the marketplace (see Rothschild 2001, 82). According to these qualifications, one can more readily appreciate the ongoing disequilibrium from which markets suffer, whether because of imperfect competition or poor foresight (inefficiencies and price fluctuation, economic cycles and crises). It is with this in mind that I am turning now to consider the lessons learned from developmental economics.

Paul Rosenstein-Rodan, in a couple of his landmark essays for the early past century, argued about these two main features of planning (e.g., 1943, and Murphy et al. 1989). Couched in terms of his own experience in the World Bank post–World War II and as a member of the Committee of Nine of the Alliance for Progress, this was not a choice between socialism (long-term planning) and capitalism (short-term reports), but rather between chaos and order, between coordinated development and haphazard infusion of capital in counterproductive ways. Though his own concern was in the area of developmental economics, this came as a logical consequence of what he saw during the middle of the last century as an international division of labor, where capital and labor could be supplemented in different markets, and where large-scale planning could be warranted (Rosenstein-Rodan 1943). Four main themes come out of his work: First, in order to enjoy a successful developmental effort there must be, up front, a commitment to building an infrastructure; second, the key to successful planning is a coordinated exchange of information, rather than the dictates of this or that agency; third, the developmental global map is north versus south, rather than west versus east; and fourth, the idea that the doctrine of development should consider the "transfer of financial and technological resources to less-developed countries (LDCs) as an international income tax" (Rosenstein-Rodan 1981). For our purposes, the first two themes are most relevant.

As for the infrastructure, his concern was that foreign aid would fixate on building a shoe factory, for example, and forget about its dependence on raw materials and their dependence, in turn, on a usable road reaching this factory. Likewise, without electricity, no machines could be operating, and without some warehousing depot, no efficient shipping could be undertaken. In short, unlike the recommendations of Schumacher (1973), for example, where "small is beautiful," namely, where local, small-scale intervention seems sufficient to ensure economic health and growth, Rosenstein-Rodan suggests that a "big push" is necessary to achieve any economic health and growth (see also 1961). Incremental intervention might temporarily help this or that individual, this or that village (as has been practiced by the 2006 Nobel Peace Prize recipient, the Bangladeshi economist Muhammad Yunus (2007), who has initiated microcredit, or small loans, in poor areas), but will never have an overall impact that will change the course of the economy. In some countries after the Industrial Revolution, this meant bridges to connect one region with another (UK); in others it meant the construction of a railroad system that allowed goods to be shipped cheaply enough from coast to coast (as allowed for by an 1862 congressional appropriation in the United States). But a bridge cannot be built by a small village alone, nor can a railroad be built by a town here and there. Instead, a coordinated effort must be made to acquire land and ensure the most effective routes through a region, with the approval and consent of all those involved. Once in place, this kind of infrastructure can enhance the development of many small factories and businesses and provide the conditions for their growth and prosperity. In many cases this kind of Big Push is provided by government agencies rather than by corporations, but this need not be the exclusive model. Some companies are big and wealthy enough to undertake an entire development of the infrastructure, as can be seen with land developers who provide their plats with sewer and water systems, roads, and electrical wiring ready to connect to the rest of the grid.

What is of interest in the case of developmental economics is that its main doctrines and principles draw from the insights as well as the critiques of neoclassical economics and provide a continuum for current discussion of any economic theory or economic policies (e.g., Scitovsky 1954 on "external economies"). This makes sense because some parts of the country, and at times some segments of the economy, could benefit from being approached as if they existed under the conditions of "less-developed" countries. This means that taking a more "macro," rather than "micro" view of the economy is necessary at times: A city provides tax incentives for a manufacturer to move into town under the assumption that it will provide jobs and increase spending in town on goods ranging from housing to clothing and food. There is a methodological issue here that requires a comment: Though the classical and neoclassical models favored growth both as a condition and a goal for the efficient operation of the marketplace, "economic theory can determine the necessary though not the sufficient conditions of growth. The so-called 'non-economic' factors account for the gap . . . " (Rosenstein-Rodan 1969, 6). This means that concern with external factors of the economy, be they political or legal, is essential for the appreciation of the conditions that enhance or retard development and growth. Whether this should push us toward a coordinated planning of the economy or of any country in the international marketplace remains an open, but intriguing question.

This way of thinking was on Rosenstein-Rodan's mind when he shifted his own concern from the efficiency of the capitalist marketplace to the global marketplace, for what would be these external factors? How would we have access to them? And, more specifically, who would have access to these noneconomic factors? Are they available to all of us, or only those more closely aligned with government officials and the captains of the financial markets? It is with these questions in mind that he suggested that "the first and primary purpose of planning is to make available additional information to decision-makers of a type which market forces cannot possibly provide" (1963, 3). Though the markets provide substantial information about what past behavior was like and at times give a quick read on economic conditions at the present (great new computers can churn a great deal of data and thereby increase labor productivity), they are bound to be less useful for predicting future trends. But planning, as envisioned here, can provide future-oriented information that is invaluable: who plans to hire more workers or close a plant, who is planning to infuse cash into the financial markets or withdraw it and transfer it into foreign markets. In his words: "This information alone would reduce risk, change investment decisions in the direction of improving both the amount and the composition of investment" (3).

Smith already appreciated the dynamic nature of the economy and its need to be monitored if not regulated, and since then it comes as no surprise that the shift toward an ever-more technologically sophisticated economy would require a collaborative effort. "Large-scale planned industrialization," according to Rosenstein-Rodan, would create a "complementary system," and as such would "reduce the risk of not being able to sell, and, since risk can be considered as cost, it reduces costs" (Rosenstein-Rodan 1943, 249–250). How true these words ring today with the present financial crisis in the United States (more on this in the next section). For those skeptical of this recommendation, Rosenstein-Rodan continues to explain elsewhere: "Even if neither direct instruments of planning (public investment) or [*sic*] indirect means (incentives and disincentives for private investment) were to be used, a purely 'indicative' planning would improve the risks of economic operations" (Rosenstein-Rodan 1963, 4).

As far as Rosenstein-Rodan and most of the economists in this field are concerned, the main ingredient by which the marketplace should be supplemented is access to information. The Smithian model was predicated on individual (hence small) actors whose own behavior was so marginal in terms of the entire performance of the market that their personal risks and by extension the risk to the entire system was minimal. Likewise, their knowledge was limited by their limited personal exposure to but a few market transactions. This, of course, was the main virtue of this classical model: No individual would be powerful enough to affect the entire marketplace. Of course, in time capitalism tended toward growth, consolidation, and monopolistic behavior by large companies, such that the barriers to entering the marketplace to begin with were getting higher and higher. Likewise, weighing the risks and benefits became more complicated because of the disproportionate impact one company might have relative to others in the marketplace. The great freedom and equality that characterized the classical model was evaporating before our eyes, and this, oddly enough, was happening at the same time as a greater premium was put on democratic institutions and social programs. In addition to capital, collusion among the more powerful in the market could be enhanced by their preferential access to information; for the planner in the developmental model, the issue is not abandoning capitalism as such (with its division of labor and promised growth), but rather modifying it enough to ensure sustained and fair growth in cooperation with the public and private sectors. (This, in fact, is the core of Reich's book mentioned at the beginning of the chapter.) So, what is under consideration here is not a comparison between socialism and capitalism, but rather between the painful and painless varieties of planned capitalism. Perhaps one way of thinking about this mechanism or process would be to bring it back to the political and moral fold and revisit the pragmatic insights of Karl Popper or his insights within a pragmatic strategy.

The Middle Ground: Popperian Influence

Though some of Karl Popper's disciples and critics claim that his thought and academic work have been absolutist in the sense of being rigidly rule-bound methodologically and conservative politically, and though some have used this characterization as an excuse to label, categorize, and in some cases dismiss everything he said or wrote, I would like to suggest an alternative. From my perspective, there is more to Popper's thought and work than is usually given credit, because in every case his thought and work are more nuanced and subtle, more open-minded and ready to accommodate novel factors and variables as they come about, in a pragmatic way similar to what we have seen in Smith's and Rosenstein-Rodan's works. Moreover, as I have suggested in the preface, Popper's views could be compared to the kind of American pragmatism associated with thinkers, such as Charles Sanders Pierce or William James, even though they did not address economic issues the way Popper did. So, of particular interest to the present discussion, the appreciation of Popper's collaboration with and influence of the Austrian School of Economic Thought did not preclude him from realizing that there might be a role for government intervention. It seems that for him, it was always a question of degree—a question of the practical conditions that affect the theoretical principles—a very Marxian attitude, if you wish, but also one that is exemplified by the pragmatic promoters of the welfare state who have found a way to combine social concerns within the marketplace or use market strategies to achieve social goals.

In what follows, I suggest embarking on what have been traditionally called "thought experiments," insofar as these are idealized narratives of contemporary questions (in a Weberian sense of Ideal Types) that are answered in Popperian terms. I turn now to examine briefly three major issues that plague the American landscape: immigration, mortgage funding, and universal health care insurance. Though some critics would object that addressing these issues could render my discussion obsolete or make it dated within a few years, I say that there are three main reasons to focus on these particular cases. First, these cases are both symptomatic of a particular set of conditions in the American economic and social landscape and of the structural problems that are inherent in a confused or inconsistent capitalism marketplace, where appeal to political and legal protection is coupled with a rejection of any government interference. Second, as we have seen in Smith's own work (*WN*), when he focuses on tariff issues and specific legislation of his day, his theoretical concerns come to life; his model comes to life and makes sense in light of these particular illustrations and not despite them. Smith's concerns were real enough to his contemporaries so that we today, more than two hundred years later, can relate to what he wrote. And finally, in order to anchor my philosophical examination, however historically informed it might be, in reality and in real-world problems that require solutions, I find it compelling to give concrete examples of policy matters that set the tone now and will for some time in regard to the peculiarities of the capitalist marketplace in a modern democracy. As we shall see in Chapter 3, these issues are symptomatic of larger, international problems and shed light on what might be ways of approaching the global economy.

As I write this book within the time period of the 2008 presidential election debates, these issues are paramount, even if the rhetorical devices employed by candidates of either of the major parties, Democrats and Republicans, are simpleminded and superficial. Unfortunately, we are less likely to find in present-day debates historical icons, like Thomas Jefferson, who were both intellectually engaged and politically astute (with all the reservations associated with the hypocrisy of being a freedom lover who owned and preyed on slaves). It is because our contemporary society has the weight of legal and political precedents that Popper's middle ground, so to speak, is quite attractive. From my perspective, though viewed by good old-fashioned liberals as a reactionary conservative, Popper had no problem with congressional legislation and government control of policies, as long as they retain their mediating status among individual citizens and the corporate community. Perhaps his approach makes sense if one assumes, in the manner Smith has done, the participants to be indeed responsible individuals (and corporations) and not greedy and irresponsible ones who respect each other and the minimal rules of the marketplace. But to be sure, my intent here is not to defend Popper or ensure a positive legacy for his intellectual contributions; instead, I wish to illustrate the extent to which someone's ideas and philosophical principles could be useful in approaching and even solving practical economic and social problems, and the solutions in turn transcend simple ideological commitments (that reveal themselves in political propaganda).

Let us begin with immigration to the United States. In a country that numbered roughly three hundred million citizens in 2007, there are claimed to be anywhere from eight to twenty million undocumented or illegal residents (according to the Center for Immigration Studies 2007 that uses data from a variety of sources, such as the Department of Homeland Security and the brokerage firm Bear Stearns). No matter what source one consults, this figure of undocumented or illegal immigrants in the United States is high enough to warrant concern by public officials. The distribution of this group of people is primarily in the southwestern states that are along the Mexican border (even though they are also numerous in any large metropolitan center), and the majority of this group is reportedly Mexican in origin (even though it includes other nationals both from central and south America as well as from eastern Europe and southeastern Asia). Some are recent arrivals, whereas others have been in the country for more than one generation. The spectrum of views concerned with "what to do with them" ranges from "do nothing," on one extreme, to "expel immediately," on the other. Obviously, many alternative proposals are offered in between, such as "legalize their status with fines," "expel and invite them to apply for immigration within five years," and so on.

The arguments that are used from the two extremes can be delineated into two camps, here called "law and order" and "fairness": The first worry about the legalization of an illegal, even criminal, act of smuggling people across national borders (allowing post hoc something that was not allowed to begin with), whereas the second casts the matter in humanitarian and pragmatic terms so as to acknowledge the contribution of this group of people to the maintenance and functioning of the economy (most are hard-working individuals who perform menial and manual jobs others will not). So, between the hard-core legalists and the soft-core humanists, there is a wide range of opinions and proposals to resolve our very own *Gastarbeiters* problem. One should note here that President Bush proposed a "guest worker program" in January 2004 that was considered a veiled amnesty of sorts that would have a humanitarian appeal (although the president himself remains a staunch conservative).

This, of course is not the first time the United States has faced immigration debates, especially because its very growth and success has historically been driven by waves of immigrants, whether through New York's Ellis Island on the East Coast some one hundred years ago or California's Silicon Valley on the West Coast more recently. The Europeans have been supplanted in this role by Asians, and the refugee status claimed by some of the former has been replaced by an entrepreneurial spirit of some of the latter (including the Israeli brain drain and the wave of digital-genius Indian immigrants). How do Mexican laborers fit into this continuous wave of immigration? How should we conceptualize their plight and our responsibilities in philosophical as well as practical terms? Invoking Popper at this junction might be of use.

Aligning his political economy thought with the Austrian School of the early previous century (especially Friedrich Hayek), and having a fairly laissez-faire attitude toward the marketplace, with an overriding distaste for anything resembling socialist central planning, Popper would encourage the free flow of labor across national boundaries (akin to what we observe today among the members of the European Union, where work permits are no longer hindrances to relocation). Let us recall, in this context, that Hayek understood the need for state intervention in order to provide the conditions of competition: "In no system that could be rationally defended would the state just do nothing. An effective competitive system needs an intelligently designed and continuously adjusted legal framework as much as any other" (Hayek 1944, 39ff.). And here one might suggest that Popper sounds a bit more like Karl Marx, in his *Communist Manifesto* of 1872, urging the international working class to unite across the world, than Adam

Smith, in his *Wealth of Nations* of 1776, who worried about the free flow of goods from one country to another, even while encouraging open markets. Likewise, Popper would welcome any infusion of relatively cheap labor that is underemployed in its home countries into a growing foreign economy, what Marx called the reserve army of unemployed labor, and what others call today our Western hemisphere's "outsourcing" opportunities abroad, so as to improve the lot of the unemployed (or underemployed) while keeping in check rising labor costs. And finally, it would stand to reason that given his own experiences before, during, and after World War II, the protection of immigrants' rights and the accommodation they deserve in their respective host countries would be legally enshrined.

Now, of course, this line of thinking, this attitude toward the labor marketplace can be seen as being a bit more complex than presented so far. As we have seen in the previous section, some developmental economists, such as Rosenstein-Rodan, have perceived the labor market internationally rather than domestically and had no problem considering the transfer of technologies to underskilled labor pools across national boundaries. Though it would seem that there is an inherent contradiction between Rosenstein-Rodan's "big-push" for infrastructure and Popper's "piecemeal engineering" (see Popper 1943 vol. 2, 158ff.), it is easily overcome when we appreciate the conditions set by Rosenstein-Rodan: Government agencies do not dictate what should be done, but rather provide the forum for the exchange of information according to which banks and corporations, individuals and local communities, decide how to go about implementing a change in investment strategies. As we have seen previously, providing the conditions for coordinated market knowledge reduces risk-taking and the pain of market cycles and ensures, to some extent, a more efficient market mechanism without thereby taking away the importance of individual actors in the marketplace (the kind of responsibility mentioned previously). It is in this sense, then, that piecemeal economic engineering is made possible. It would therefore seem that unlike the position that the conservative right wing in the United States holds in the current debates over immigration, Popper would strike a more liberal stance, perhaps in the classical British nineteenth-century sense, that would see the infusion of cheaper labor not only in economic terms but also as a humanitarian issue deserving some government intervention, thereby providing the legal and economic frameworks within which individual actors can safely work.

One must remember that for Popper, police-like regimes, whether fascist or totalitarian, are anathema; it is the *open society* in the broadest sense of the term that he valued and promoted. The openness is not limited to philosophical debates and theories and the occasional political change of guard without violence, but is intended to be *practical* so as to allow for the free flow of humans from one country to another (given changing economic or social circumstances) as well, treating them as individuals whose choices regarding homeland and occupation would be defended socially and morally and protected economically and legally. His concern, therefore, would remain with the individual immigrant, young or old, male or female, who makes the decision to cross a border and establish a new life for herself or himself. But beyond this general theoretical and practical principle, Popper would always be on the side of those who suggest incremental changes in policy, so that his famous piecemeal engineering principle would become operational (Popper 1943 vol. 2). If you juxtapose the respect for protecting individual decisions and choices as an ultimate value of some sort with a deep appreciation that every social policy (government coordination that is seen as planning or engineering) must be tentative and gradual, allowing for mistakes to surface so as to correct them, then you have a Popperian recipe for immigration policy in the United States.

We can turn now to the second case I wish to examine here, namely, the latest mortgage-loan debacle that has crippled the financial markets and that is threatening to bring about a fatal recession in the United States with ripple effects that are already reverberating across the globe. The origins of this debacle are innocent enough at some level and have become more egregious as time has gone by. At the end of his first presidential term, President George W. Bush encouraged home ownership by all Americans as a way to motivate the middle class to have a stake in the economy and take advantage of the private property rights democratic capitalism offers every citizen. In some sense, this is a laudable ideological commitment by a president whose own intellectual sophistication has been questioned throughout his presidency. But, as the chairman of the Federal Reserve Board, Ben Bernanke, testified before the Congressional Committee on Financial Services, the issue of making house ownership affordable has deeper origins than merely a cyclical downturn in this particular market.

As part of the New Deal, there was a great push toward home ownership with government support, such that Fannie Mae and Freddie Mac were established as independent but government-backed entities that guarantee or ensure the payment of interest to lending institutions. As time goes by, one can see the extent to which these institutions themselves have come under closer scrutiny in terms of their independence, government-dependence, and the role they play in the financial markets. As both institutions have been taken over by the government (as of September 2008), the general argument proposed here for a pragmatic solution to economic crises has been validated. To simplify an awkward and arbitrary system, standard credit scores were established to assess the creditworthiness of individual borrowers, and local banks and mortgage companies were allowed to enter this market for financing home purchases. "Subprime mortgages," explained Bernanke, "are loans intended for borrowers who are perceived to have high credit risk" (Bernanke 2007). Credit has been extended on those terms for more than twenty years, but because of national standards for credit scoring, risk assessment became easier for lenders, and the market expanded from its traditional small base into wider national and international markets. "Regulatory changes and the ongoing growth of the secondary mortgage market increased the ability of lenders, who once typically held mortgages on their books until the loans were repaid, to sell many mortgages to various intermediaries, or 'securitizers'" (Bernanke 2007). This meant, in turn, that these institutions could bundle mortgages of various risks and sell them to investors whose sole concern was the anticipated cash flow of these bundled securities. This innovative process, explained Bernanke, increased the number of households that could and in fact did own their homes in the 1990s.

So far the narrative sounds positive. But let us retell this narrative from a different perspective. In order to purchase a house one needs to have sufficient funds, and if not, be able to borrow the funds to purchase the house. This prospect seems daunting to most people, because coming up with a few hundred thousand dollars up front is unrealistic; hence, borrowing is the only way to fulfill the American Dream (with the post–World War II image of a white picket fence, etc.). The qualifications for house purchases were reasonable and ensured that buyers did not buy expensive homes they could not afford (matching dreams with realities). Buyers had to come to a closing with a down payment of up to 20 percent of the purchasing price (so that they had to save their money if they were committed to buying a house), show evidence of steady employment with sufficient income to pay the mortgage (that included interest on the borrowed money plus some principal spread over, traditionally, thirty years). But what if the push is to purchase a home even though one fails to meet these qualifications?

Assuming the presidential mandate and playing off the American consumerist dream of personal property ownership, while also being financially sophisticated, financial institutions began calculating their risks of lending money to less and less qualified borrowers, so that their own risk assessment would justify what eventually became known as "subprime interest" (as was explained previously). Moreover, to skip the saving period that would take borrowers to come up with down payments, borrowers would be promised 100 percent of the purchase price as their loan, and income records were less rigorously scrutinized. The risk of this practice, as we have seen, was mitigated in a variety of ways, not the least of which was the ingrained belief that the housing market would continue to grow and display price increases indefinitely. This meant, for example, that the increasing value of a home (by anywhere from 5 percent to 10 percent annually) would render the original loan a lower percentage of the total value of the house, so that in case of default, the full amount of the original loan could be realized (even if the house sold at a foreclosure for 10 to 20 percent discount from the going market prices).

The increase in borrowing and the reduction in direct risk to lenders who immediately sell their loans to the secondary markets created a double effect. On the one hand, great incentives were posed to provide as many loans as possible and receive transaction fees regardless of the responsibility to provide full risk assessments of individual borrowers (because the scoring mechanism seemed trustworthy), and on the other hand, adjustable-rate mortgages were offered with initial low rates that increased much more quickly than anyone anticipated (partially because "teaser" rates were unrealistically low). If the scrutiny of potential borrowers is compromised, and if the rates are so high that borrowers cannot afford to make monthly payments, foreclosures are bound to happen more often than under otherwise normal market conditions. Add to this mixture falling house prices, so that lenders cannot even be repaid the value of the loan (regardless whether some amount was paid as a down payment), and default cases become even more problematic because lenders cannot simply liquidate the loan and be made whole. With increased losses by primary and secondary lenders, the whole housing market has been rapidly collapsing insofar as lenders become more reluctant to underwrite the new loans that usually fuel the market for new homes (though there are other factors that account for an expanding economy, such as wars). The purchase of a home occasions other economic activity, for instance, the purchase of durable goods (such as refrigerators, washing machines, furniture, and all other goods that are needed to provision a home). With the decrease of the former, the rest of the manufacturing markets feel the stress. This snowball effect is what has alarmed the United States and the rest of the world, given, incidentally, that close to 70 percent of the U.S. gross national product is based on consumer spending, which dramatically decreases with any whiff of a presumed "crisis." Sometime in the middle of 2007, the subprime mortgage market collapsed, when more and more foreclosures threatened to ruin some large financial institutions.

Inventory of unsold houses was increasing, prices of existing and new houses were declining (following the classical model of supply and demand), and tearful citizens were interviewed across media outlets. The actual number of families who might be losing their homes because of the current crisis comes close to two million (Center for American Progress 2007). What should be done?

Some would argue that greed drove the housing markets, on the part of both financial institutions and mortgage banks, whose fee-collection alone was astronomical, and homebuyers, who set their sights too high and bought what they could not afford. Regardless of how we got to this point, should individual borrowers suffer the consequences of their own actions? Should they have been alerted to the potential for changes in the financial markets and the increase of their adjustable rates? Should the financial institutions bear the burden of their own reckless behavior? Or should the government intervene? Some would suggest that, if we do indeed have a capitalist economy with marketplaces that find their equilibrium (or not) because of the fluctuation of supply and demand and with prices that move in tandem with such fluctuations, then a collapse of a commodity (mortgage) can happen and should not be interfered with by government agencies (Utt 2007). If a few giant companies declare bankruptcy, so be it. If a few thousand homeowners lose their homes, so be it. This is the price of enjoying capitalism as a system of free choice (even when the choice is a bad one). Others have clamored for government intervention, for the rescue of the financial institutions and the borrowers who might be losing their homes. Government guarantees will keep interest payments from becoming delinquent, and the rest of society, through their taxes, will subsidize the greed or lack of foresight of fellow citizens. What would someone like Popper say? It should be noted here that my use of Popper is meant as a useful thought experiment relating to potential thinkers and advisors who might help solve some of the problems facing our nation, and by extension, the rest of the world (not because we are at its center, but because the capitalist system has become globally interconnected).

For a pragmatist like Popper, it is never an "all or nothing" endgame, but rather an understanding that there is a spectrum of choices we can all make, and that these choices have political or moral frameworks within which they are protected. The "we" in the previous sentence applies both to the individuals who make decisions and to the government and its agencies that make decisions for the welfare of society as a whole. So, Popper would encourage some government intervention to temporarily support a failing mortgage market if there were guarantees that that market would benefit from the intervention and soon become healthy again. The government has the fiduciary responsibility to regulate large corporations so as to protect individual citizens who come in contact with them (as is seen with the Food and Drug Administration that ensures the safety of our food supplies). This is different from dictating what financial instruments should or should not enter the financial markets. Rather, it would be a regulative mechanism that would protect the markets from abuses or from the pain suffered when cyclical fluctuations disrupt the lives of millions at a time. It is a way of finding a middle ground between the extreme absolutes of no government intervention whatsoever, called for by the classical capitalist model, and an overly oppressive government intervention of the socialist kind that would directly own and control all banks and financial institutions.

The key to this decision would be the rational arguments mustered on behalf of intervention. By this I mean the way to interpret market forces and market cycles so as to smooth the ups and downs of the economy in order to cause as little human suffering as possible. This is different from eliminating market cycles, which is only possible if one were to abandon capitalism altogether and endorse centrally planned socialism. But the freedom to enjoy economic prosperity is moderated by the risk of failing to enjoy any prosperity at all, because one might have chosen wrongly, even when the choice was freely undertaken. So, the rational questions to ask before acting would be: Will it work? Are the effects of the intervention temporary or permanent? Will the intervention restore public confidence and strengthen the markets overall? Or, by contrast, would government intervention exacerbate the situation (as is repeatedly debated in the case of the Federal Reserve Board's increasing or decreasing the prime rate)? Because housing market conditions are constantly changing, and because their changes are linked to the conditions of other markets (e.g., manufacturing), one must eschew, once again, absolute ideological or philosophical principles and endorse the Popperian "situational logic" (see Sassower 2006, ch. 3). By this I mean the recognition that many regulators express of finding solutions that pertain to the particular context within which they are made. The problem, of course, is that the "situation" or the context is itself a moving target, so that whenever a solution is proposed, its application (given the shift in time and circumstances) might be already a misapplication.

Incidentally, the 2007 Bank of Sweden prize in economics in memory of Alfred Nobel was given to three economists who developed the "mechanism design theory," which attempts to systematically take into account the realities of economic life so as to structure economic incentives and institutions to enhance social welfare. The appreciation of the need for and influence of institutions (government agencies as well as private clearinghouses) overcomes the basic shortcoming of the idealized competitive marketplace that cannot, for example, deal with the need to reduce pollution. Some have called this approach to applied economics Institutionalism, whereas others have tried to retain it within the mainstream of economic theory (see Hodgson 2004). The only "solution" to this and many other social or global problems is the vigilant continuation of providing and adjusting incentives as partial solutions, so that no single solution is ever solidified or revolutionized. One could say, then, that it is in this Popperian spirit that the Federal Reserve Board meets regularly and that its presidents bring to the forum their diverse data from their respective regions of the United States. Likewise, this follows my argument in the first section of this chapter, where I suggested that Smith always understood his model of the invisible hand as being supported by the impartial spectator who ensures some form of social benevolence.

The last item that I will examine here, and of paramount interest in the United States, perhaps differently construed from the European experience of socializing many public goods and services, is health care. To some extent, health care insurance has become the litmus test of how Americans view their society. Out of three hundred million citizens, there are close to fifty million who are working but uninsured (e.g., Bernasek 2007). There is no mandatory insurance provision at the federal level, even though some states, such as Massachusetts and California, have enacted legislation that attempts to mandate health insurance the way all other states mandate car insurance for drivers. Whether you like it or not, by law you must have car insurance, namely, you can be fined and your driver's license can be suspended if you do not have insurance. This illustrates an approach to the public domain and our interactions within it that commits us to being responsible for the consequences of our actions, may they be car accidents or sickness, and ensuring that the public burden is fairly shared by all citizens.

Should citizens in a democracy be forced to have health insurance? Should the government mandate that they get it directly or through their employers? What should be done with the unemployed or with children? Do we have a responsibility for taking care of all the citizens of this country? On some level, we already do, because when services are rendered to the uninsured, the premiums of the insured go up proportionately to cover such costs. On another level, there are fewer incentives for insuring oneself if it is commonly known that hospitals cannot legally deny care to indigent or uninsured patients. But perhaps we should reflect for a moment on what the very term *health insurance* means, because like all kinds of insurances, it provides guaranteed access to health care, regardless of the circumstances of one's ailment. Does it matter if the national government collects the premiums and guarantees payment to clinics and hospitals, or if it directly owns and operates them? Should health insurance in a capitalist society be of necessity or by definition in the hands of private corporations? Can large corporations self-insure? In 1880s Germany, Bismarck tried out this idea (of national insurance), but the United Kingdom developed the first national health care system in 1948. Most developed countries (from Western Europe to some in Asia) have some sort of a universal health care provision, except for the United States. So, what should be done in America today?

Some politicians from both parties are proposing specific measures in order to find solutions to our mounting health care problems (or *crisis,* as some have termed it). The minute social programs are suggested, Popper would readily agree, there is a hint of socialism in the air, and the inefficiencies of government agencies are brought to the fore. For example, there is some question as to whether the European system is indeed superior to the one in the United States. The measurement used by some is based on a Commonwealth Fund study that compared the quality of the American health system with those of five other countries and found that "despite spending twice as much per capita, the U.S. ranks last or near last on basic performance measures of quality, access, efficiency, equity, and healthy lives" (Capell 2007, 1). The trick, of course, is the definitions used in assessing "quality" and the numerical or statistical data provided by various national or private agencies. In the United States, we spend more money on health through government budgets (close to one-third) and private organizations (close to 15 percent of our gross domestic product), but our life expectancy is lower than that in most European countries and our infant mortality rate is higher. Moreover, the World Health Organization rated the French health care system in 2001 the best in the world, whereas the United States was ranked thirty-seventh; likewise, whereas the French spent about $3,500 per capita on their system, the United States spent $6,100 per capita. The differences are so great that they invite more serious questioning (Dutton 2007).

Instead of using "single-payer insurance" or "universal health insurance" or a "national health system," the American model has opted to rely on a mixture of private insurance companies and government safety nets. But relying on the private sector is problematic as well, for a variety of reasons. To begin with, if the ultimate goal in a capitalist system is profit maximization, then (all things being equal) the less they have to pay for care, the better off the corporation (whereupon denying coverage or reimbursement for medical procedures and services is the norm, rather than the exception). Moreover, as capitalist entities, insurance companies are prone to assess risk and are likely to deny access to insurance to high-risk clients (thus creating the reality of about 15 to 20 percent of the American population being without any coverage). Along the same lines, as participants in the marketplace, insurance companies are prone to seek low-cost solutions to medical problems, so as to decrease their own costs and thus "cut corners" or compromise on the quality of care (for instance, to use less-qualified professionals and avoid specialists). Finally, any financial speculations by insurance companies that collect premiums today in order to pay out for future services will be paid by current policyholders (in the case of speculative losses) in the form of increased premium fees. Should private insurance companies be regulated? Should we intervene in their operational methods and impose government guidelines?

Once again, the questions plaguing health care provision in developed democracies with capitalist marketplaces must be framed in terms of capitalism versus socialism. The Popperian approach has traditionally favored reliance on market mechanisms rather than the wisdom (or lack thereof) of government agencies and their functionaries. But is this true only of consumer goods, such as food and clothing? Should this be true also of our health? In the United States we at least regulate pollution and believe that it is the government's duty to mandate and enforce clean breathing air for the citizens. But what should we do about preventive medicine? We know that it is cheaper to invest in the health of a pregnant mother than wait until she has some complications during or after delivery. If uninsured, the mother will find her way to the emergency room and be treated at the expense of the rest of the insured community, or at times the city or state (which is the case in some hospitals that are city-owned or subsidized by the state), rather than investing much less in making sure her pregnancy and her offspring are healthy (and thus cost less to care for). The relationship between the individual citizen and her or his entitlement to health care, on the one hand, and the duties or responsibilities of the state to care for all citizens equally and fairly, on the other, remains a political as well as an ethical issue (more on this in Sassower and Cutter 2007).

Popper would approach hospitals and pharmaceutical companies as free agents in the marketplace and therefore try to impose as little regulation on them as possible, except to ensure their compliance with state and federal laws that protect the lives of patients and ensure their safety in the hands of medical professionals. But at the same time, he would also appreciate the extent to which the private sector benefits from being protected by political and legal frameworks (as Karl Polanyi recognized in 1944) that allow certain tax deductions, for example, for the research and development of new drugs and instruments (for more on Polanyi, see Stehr 2008, 26–28, 55–57). Perhaps Popper would favor a private-sector framework for insurance as well, as long as insurance agents would not deny access to insurance or funding procedures that are needed, with excuses that are based on greed and profitability. Put differently, using his piecemeal engineering concept, Popper would suggest incremental policy changes that could be tested practically and improved on over time. This would not mean the switch of health care in the United States from capitalism to socialism overnight, but rather an ongoing experimentation with and testing of the overall national commitment to take care of all the citizens in a reasonable fashion. When insurance companies abuse their role in society, the government must be watchful and take measures to correct these abuses and prevent their recurrence. When patients abuse their rights and overtax the health care system, they too must be accountable for their behavior. And within this gradually changing framework, rights and duties can be reassessed, and quality of care expectations can be modified.

As I have tried to argue in this chapter, the customary labels of old along with those of contemporary media pundits fall short of the nuances and complexities of life. Moreover, there is a treasure trove of classical texts with a great many insights that could be of help in the contemporary setting. To see Adam Smith simply as the father of classical capitalism, or worse, as the champion of greed and fear, is to miss his greatness. Likewise, to see developmental economics as a subfield of research confined to bleeding-heart liberals who care about under- or less-developed countries and who plead for foreign aid, is to miss their own indebtedness to neoclassical economics. And finally, to miss the political and moral underpinnings of any intellectually interesting thought is to ignore what makes that thought exciting and applicable. The ideas of Smith, Rosenstein-Rodan, and Popper are used here with all the critical reverence they deserve, so as to be pragmatically applied in an economically confused period in our history. We can learn from them, we can critically apply some of their ideas without buying into their entire framework, appreciating all along the kind of detached engagement that keeps us intellectually alive. Most of all, as we shall see in the third chapter, though considered here within the American domestic level, these problems are international in scope and therefore warrant a broader application in the age of globalization. Institutional support for global initiatives is much more effective if it is mirrored on the domestic level, that is, if there are national institutions that can maintain and affect policies and regulations that are rational and critical, compassionate and efficient. Incidentally, there are in place numerous regulatory agencies whose work and effectiveness have been recently challenged, such as the Securities and Exchange Commission, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Reserve, the National Credit Union Administration, and the Commodity Futures Trading Commission. Smith's original pragmatism should not be cloaked in some extreme version of capitalism to which he himself never adhered. Neither should it be ignored in the name of a sanctified or petrified sacred doctrine. Instead, it should be appreciated for the delicate balance it offers between the financial and economic systems of market capitalism and the social and moral systems of benevolent citizens.

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Chapter 2

The Knowledge Industry

The Academy and the Internet

The shift from the invisible hand to the impartial spectator, as we have seen in the previous chapter, is a shift from a prudent or selfish worldview of the marketplace to one that pragmatically acknowledges our personal and social benevolence. But the way to make this shift seamless is to appreciate what kind of a society we have become by the twenty-first century. We are no longer toolmakers who exchange their wares and their labor power, but rather members of an international community who consume information through many means, including the Internet. In other words, the shift we could detect already in Smith's eighteenth century has been amplified in an era where the "cement" of which Smith speaks is made of visual pixels on screens and other manifestations of speedy communication. We have moved from the industrial age to the information age, so that in the age where data collection and dissemination are so important, we can see how the concerns of developmental economists (from the previous chapter) come to the fore.

If knowledge is not only the means by which we exchange goods and services but in fact becomes the foundation on which such exchanges even take place (both personally and technologically), then we should turn our attention to the production, distribution, and consumption of knowledge. Perhaps it should be said at this point that the mere collection of information or data is not the same as the production, distribution, and consumption of knowledge (more on this distinction later). The difference is at once ontological and methodological. Ontologically speaking, the question is: When does something become a fact? Under what conditions does a blade of grass or a butterfly become bits of information? Some would say that the very question of what is out there in the world is meaningless without the added variable of who is asking the question and for what purpose. Pragmatically, we approach any set of data with a question or purpose in mind, and therefore our classifications, as Michel Foucault reminds us (1970), are suited for particular purposes. This is true when we see the global financial markets collapse before our very eyes, when we are confronted by natural disasters, or when we wish to figure out what we own. At times, says Foucault, the classification or taxonomy can be quite entertaining:

> Animals are divided into: (a) belonging to the Emperor, (b) embalmed, (c) tame, (d) suckling pigs, (e) sirens, (f) fabulous, (g) stray dogs, (h) included in the present classification, (i) frenzied, (j) innumerable, (k) drawn with a very fine camelhair brush, (l) *et cetera,* (m) having just broken the water pitcher, (n) that from a long way off look like flies. (1970, xv)

As exotically charming as this old "Chinese" taxonomy may seem to us, as weird and incomprehensible as some would see it, this way of organizing data and ordering the world around us is probably no more nor less exotic and weird than some of our own classifications and taxonomies. We usually explain and justify our own methods and criteria with historical antecedents or changed circumstances that dictate this or that preference in choosing our criteria. But our classifications, like those of others, can be easily criticized and dismissed. How would we classify the current financial crises? Should we compare them to previous historical instances? But would such a comparison hold when we have shifted to a global rather than a domestic economy? What do billions of dollars mean in relation to one's own annual earnings or in relation to the national debt? Are these "real" numbers or just symbols of some value assigned to assets and liabilities? In the hands of politicians, even the most rigorous figures and tables find a way of being misrepresented and therefore misunderstood.

Methodologically speaking, there are various ways in which we can collect data, classify them, compare them, and then categorize or synthesize them. The inductivists suggested that we collect as much information or samples as possible and then generalize from them about the major or salient characteristic of our observations: for example, the reasonable assertion that all swans are white. The hypothetico-deductivists suggested we form some hypothesis about swans and then try and confirm or refute it: in the latter case proclaiming, hey, there is a black swan over there! Obviously the black swan would refute the hypothesis of all swans being white. If we cherish this particular hypothesis we can either kill the black swan (by extension, ignoring an experimental result in laboratory experiments) or kill the report (that is, to refuse to publish the report in scientific journals).

Without elaborating on all the methodological debates of the past two centuries among scientists and philosophers, and without detailing the statistical issues emanating from "Black Swans," as Nassim Nicholas Taleb details them in his work (2007), let me suggest that the importance of information gathering as a stage in the acquisition of knowledge is not the same as knowledge itself. This might seem like an insignificant distinction at this point, but when we discuss the conditions under which the stock market, for example, operates with partial knowledge or with misinformation or with basic uncertainties, this kind of distinction becomes more pronounced. In other venues we are clear about the distinction: When you use Google to find something, you are more likely than not to find a great deal of information, most of it useless, and you are not yet in a position to know anything about the topic or question that interests you. The sifting through the information, its assessment, and the criteria by which you prefer to focus on a subset of the available data are the relevant ingredients that move you from being informed to actually knowing something of interest to you. In what follows, I focus more on the economic dimension of knowledge, rather than its philosophical or pedagogical dimensions, so as to keep with the issues outlined in the first chapter.

The Production, Distribution, and Consumption of Knowledge

The two extreme positions of the educational spectrum (and of the main "factory" of the knowledge industry), from an economic perspective, end up being labeled socialist and capitalist (as we have seen in the first chapter). But in examining the two extreme positions we should be careful to distinguish between the three stages or components of the educational market: first, its production in laboratories, universities, and on the streets; second, its distribution through traditional institutions, such as schools, as well as through corporate mechanisms, such as workshops and seminars, all the way to self-education via the Internet; and finally the various modes of educational consumption, from traditional means to more esoteric ones. So, let us begin with the socialist position, as mentioned by Karl Marx in *The Communist Manifesto.* When describing in 1872 what would be achievable goals and pragmatic ways to measure the success of the communist stage of economic development, Marx included, as his tenth item, the following: "Free education for all children in public schools. Abolition of children's factory labour in its present form. Combination of education with industrial production, etc. etc." (Marx 1988, 75). Sounding much less radical today than it did at the time, Marx's concern for free universal education was right away connected with and dependent on the place of education in the marketplace. To begin with, education is free to citizens, because the state is paying for it. Second, if kids are in school, then they are not on the factory floor, and this way their exploitation is avoided. And third, education is linked to the industrial sector of the economy, so that the former contributes to the latter; one could call this instrumental education, it is education with a training purpose in mind. The Marxian ideal has been fully implemented in the United States, with mandatory education and labor laws that protect children from being abused at the workplace. Likewise, as we shall see in what follows, even the university system has been keen on seeing itself as a partner in the world of commerce, training generations of productive citizens who will join the marketplace.

Though Adam Smith wrote about education about one hundred years earlier than Marx, and although we would expect him to be much less sympathetic to public education, he ends up surprisingly close to Marx. In his *Wealth of Nations* of 1776, he appreciates the fact that his recommendation for the division of labor would split society into two main groups, one of laborers and one of the gentry. It would seem that with this division of labor the laborers would need no education at all, because their main contribution to the marketplace is the sale of their labor power. But, here is Smith's concern with both their productivity and their dignity:

> The man whose whole life is spent in performing a few simple operations . . . has no occasion to exert his understanding . . . and generally becomes as stupid and ignorant as it is possible for a human creature to become. . . . His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society this is the state into which the laboring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it. (Smith, *WN,* 734–735)

So, there is a role not only for education per se, but for publicly financed education. Even though the laboring citizens might not be able to have the time and money for their own education, he suggests that: "for a very small expense the public can facilitate, can encourage, and can even impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of education [read, write, and account]" (*WN,* 737). He speaks in the same breath about the necessity for acquiring some basic skills and the establishment of local schools for young people. Smith ends his argument about the benefits of the various educational systems (and their historical or traditional failings) by openly declaring: "The expence [*sic*] of the institutions for education and religious institutions, is likewise, no doubt, beneficial to the whole society, and may, therefore, without injustice, be defrayed by the general contribution of the whole society" (*WN*, 768). For Smith and Marx alike, education, the acquisition of knowledge for the purpose of improving general social conditions, was important enough to set aside ideological differences and personal attitudes. They both realized what made education a unique feature in the marketplace, an essential ingredient in making humans more efficient and thoughtful, more productive contributing members of society, while at the same time being a means by which the dignity and self-worth of society can be more easily measured and honored. Whether from compassion or expediency, the two extremes of the spectrum of opinions are joined in a uniform exaltation of the importance of educating the whole of society.

If one were to transform this attitude about education to a more focused question about the economy, then, as Friedrich Hayek reminds us, we should limit ourselves to a "rational economic order," and then approach our economic problems rationally. This would be quite simple, namely, "purely one of logic," he explains: "*If* we possess all the relevant information, *if* we can start out from a given system of preferences, and *if* we command complete knowledge of available means" (Hayek 1977, 5). The issue, then, is making sure that all these conditions are fulfilled, which, as anyone reasonable would admit, is quite impossible. What is missing, of course, is access to full knowledge about all the variables that would go into deciding what the best course of action would be. As we have seen in the previous chapter, sharing information on the most basic level about potential investments and preferences would take risk out of the marketplace and allow greater stability and growth (because of reduction of those costs associated with risks). Hayek, of course, is in line with this quest for sharing knowledge, but, as always, he is wary of it being centralized in the hands of government agents and planners, trying as they do to anticipate changes in the economy (1977, 11).

So, for Hayek, the miracle of the price system, as he calls it, ensures that "the knowledge of the relevant facts is dispersed among many people," eventually allowing for separate actions to be materialized in the form of prices for goods and services that act as coordinating agents (1977, 13). But instead of needing to know more and more, instead of being able to ascertain the "relevant information" (which itself is a feat of sorts), Hayek advocates a contrary approach to the "economy of knowledge," namely, "how little the individual participants need to know in order to be able to take the right action" (1977, 14). This view is either naive or misleading, for the less one knows the more one might be manipulated, or by contrast, the more intricately one corporation understands the ignorance of consumers, the more likely it is to set prices that are irrelevant to actual production costs. Put differently, though the ongoing neoclassical presumption is that humans are rational by design and therefore act rationally most of the time (and especially so when acting in the marketplace), new studies in behavioral economics illustrate not only that we act irrationally, but that we do so persistently, and in fact, so persistently that our irrational behavior is predicable.

Dan Ariely, for example, compiled the results of numerous experiments at MIT and other leading academic institutions and documented the predictability of our irrational behavior. One of my favorites, among the many examples he cites, is an instance where Williams-Sonoma introduced a high-end bread machine priced at $275. This machine sold poorly until such time as the vendor introduced another bread machine that cost 50 percent more. The (now) cheaper machine then sold very well. The point Ariely makes by this example is that "people didn't have to make their decision in a vacuum" (Ariely 2008, 14–15). Rather, people have a need for relative values to be present in order to make so-called rational decisions; but now their decisions are contextualized irrationally, thereby providing an artificial logic in terms of which to make choices.

Does the consumer make decisions in an information vacuum? Yes, probably most of the time, for unless comparisons are available, no basic information about costs and values are available. However, this allows for anyone to fabricate comparisons or a set of false contexts within which choices are made, devoid as they are of any sense of reality (in the sense of the raw materials and labor and shipping and marketing that go into bringing a product to market). Ariely's conclusion about what he terms our *irrational behaviors* is that they are "neither random nor senseless—they are systematic and predictable," and they arise "because of the basic wiring of our brains" (239). For him, then, there is room for improvement on the assumed standard economic model of rational behavior allowing for people to learn from their own mistakes, appreciate their own decision-making patterns, and watch out for their own follies. Surely for someone else, such as marketing and public-relations companies, this would be an opportunity for manipulation.

Instead of continuing to discuss human nature or the way our brains are "wired," Ariely's examples and arguments make it clear that we should focus on the context within which our decisions are made. This context is made up of all the variables that provide for the operations of the marketplace, and the ones we focus on here are knowledge or information. The first sustained study of the production and distribution of knowledge was undertaken by Fritz Machlup in 1962. As the economy changed, as it grew and relied more and more on advanced technologies that themselves were driven by advances in knowledge, he found it appropriate to study the function of the knowledge industry not as an exogenous variable (as we saw in the first chapter was done in most developmental models that excluded social or political variables) but as an endogenous variable (which can be measured and plays an integral part in the construction of the economic model). His main concern was to go beyond the basic assumptions that have driven economic thinking as to the knowledge individuals have of market conditions (the equilibrium prices of goods and services) or that producers have regarding their production opportunities (the best available technology and their lowest material and labor costs). Being modest, Machlup gives credit to Adam Smith as the one who first noticed that individuals who have been highly educated or trained could be seen as if they were "expensive machines" both more expensive and productive than uneducated ones, or what we would call today human capital (Machlup 1962, 5).

Machlup goes one step farther than considering exclusively those kinds of knowledge that are "instrumental in increasing the efficiency of the economy" (6). For him there are other kinds of knowledge that might seem at first less directly related to the increase of economic efficiency, but that indirectly have a great impact on society. There are five kinds of knowledge, according to Machlup, which might be worthwhile to list in full:

(1) Practical knowledge: useful in his work, his decisions, and actions; can be subdivided, according to his activities, into
   a) Professional knowledge
   b) Business knowledge
   c) Workman's knowledge
   d) Political knowledge
   e) Household knowledge
   f) Other practical knowledge

(2) Intellectual knowledge: satisfying his intellectual curiosity, regarded as part of liberal education, humanistic and scientific learning, general culture; acquired, as a rule, in active concentration with an appreciation of the existence of open problems and cultural values.

(3) Small-talk and pastime knowledge: satisfying the nonintellectual curiosity or his desire for light entertainment and emotional stimulation, including local gossip, news of crimes and accidents, light novels,

stories, jokes, games, etc.; acquired, as a rule, in passive relaxation from "serious" pursuits; apt to dull his sensitiveness.

(4) Spiritual knowledge: related to his religious knowledge of God and of the ways to the salvation of the soul.

(5) Unwanted knowledge: outside his interests, usually accidentally acquired, aimlessly retained. (21–22)

But this general classification is only one way of appreciating the different kinds of knowledge we all acquire along the way. How to see these kinds of knowledge in an economic model requires that we consider knowledge either as a "final product or as a necessary requirement—as a cost element—in the production of other goods and services" (Machlup, 29). If knowledge is considered a final product, then it is either consumed or invested; it is an investment when it comprises scientific research, for example, and it is similarly consumption when we read a novel (Machlup, 29–30). It is from this perspective that Machlup wants us to appreciate the different kinds of knowledge we encounter and how we make use of these differently for multiple purposes. These classifications, admittedly, are not as clear-cut and sharp as they are presented, as Machlup himself admits, but are designed and laid out for heuristic purposes.

As far as Machlup is concerned, there are eleven reasons for embarking on this analysis of the production, distribution, and consumption of knowledge, whether understood as a product or an investment or a consumptive activity. Though outlined more than fifty years ago, these reasons seem to ring true today.

(1) It is a fact that increasing shares of the nation's budget have been allocated to the production of knowledge.

(2) It can also be shown that a large portion of the nation's expenditures on knowledge has been financed by government, so that much of the production of knowledge depends on governmental appropriation.

(3) One may strongly support the judgment that the production of knowledge yields social benefits in excess of the private benefits accruing to the recipients of knowledge.

(4) It is probable that the production of certain kinds of knowledge is limited by inelasticities in the supply of qualified labor, which raises questions of policy, especially concerning the allocation of public funds.

(5) The facts that the production of knowledge of several types is paid for by others than the users of the knowledge, and that these types of knowledge have no market prices, raise questions of their valuation for national-income accounting as well as for welfare-economic considerations.

(6) The production of one type of knowledge—namely, technology—results in continuing changes in the conditions of production of many goods and services.
(7) One may advance the hypothesis that new technological knowledge tends to result in shifts of demand from physical labor to "brain-workers."
(8) There is evidence of a change in the composition of the labor force employed in the United States, in particular of an increase in the share of "knowledge-producing" labor in total employment.
(9) There is ground for suspicion that some branches of the production of knowledge are quite efficient, although it is difficult to ascertain input-output ratios and to make valid comparisons, especially since the very wastefulness is held to be productive of psychic incomes and social benefits.
(10) It has been suggested that some of the growth in the production of knowledge may be an instance of "Parkinson's Law," which implies that administrators tend to create more work for more administrators.
(11) There is probably more validity in the hypothesis that the increase in the ratio of knowledge-producing labor to physical labor is strongly associated with the increase in productivity and thus with the rate of economic growth. (9–10)

From any of these reasons, it becomes clear why Machlup embarks on the project, and why, as time has passed, the study of knowledge as part of economic analysis has grown all the way, as we have seen previously, to the sociopsychological variables that make up behavioral economics, which in my mind, is part of the study of the knowledge economy. It is not only the knowledge we acquire about the marketplace, but also the knowledge we bring to the marketplace in order to operate it more efficiently or to be more efficient within it.

Knowledge acquisition, according to Machlup (what we call education), can be found or distinguished in various places or institutions: home, school, job-training, church, military, media, self-education, and personal experience (51). Regardless of how or where knowledge is acquired, it can be argued that "most of the outlays for education can be regarded as investment in human capital because they are expected to yield returns in future years" (63). This way, education or knowledge acquisition can be simultaneously investment and consumption, because it relates partially to future benefits and partially to current enjoyment (108). So, education can be viewed as either a productive force for present or future ends, or as a pleasure one derives in the present or in the future (115). One could reform schools, for example, to minimize costs and derive the most from future productivity, or one could appreciate the importance of the pleasures derived from education and then be more hard-pressed to put a price tag on its value. Machlup tabulates all the relevant statistical data available to him so as to illustrate the significance of this sector of the economy: This is no longer a philosophical issue but an economic one.

There are some, like James Cates, Sam Gill, and Natalie Zeituny (whose distinction between knowledge and information was mentioned at the opening of the chapter), who have turned this general discussion into a more operational manual that helps business leaders figure out how to use information. In their model, one can move from facts (events in the real world), to data (which organize facts), to information (which is data that are organized to answer specific questions), to knowledge (which consists of information and its usage rules), to understanding (knowledge that is shared), and finally to enabled intuition. These stages of comprehension and data organization move us from diverse and independent facts all the way to a level of understanding that can put things together, that has logical or cognitive rules that can be explained and predicted. The final goal, for them, is the level of what they call "enabled intuition," which they define as "a higher level of understanding that facilitates decision makers to intuitively choose the right course of action that will benefit the business in any situation. With enabled intuition decision making is refined to an art" (Cates et al. 2007, 3–5). To me this model is an example of how to take the general discussion of knowledge acquisition and make it operational: Facts are not collected in a vacuum, and eventually the ways we put them together and learn to understand the information and knowledge to which we have access lead us to a level of decision making that is both informed and intuitive. Whether one follows this model because it is descriptively accurate or because it provides a prescription for business leaders remains an open question. But what makes this model compelling for the present discussion is the ways in which philosophical and methodological issues, as developed, for example, by evolutionary epistemologists (e.g., Radnitzky and Bartley 1987), are turned from the abstract to the concrete, how ideas about knowledge acquisition become tools in the hands of businesspeople.

Regardless if this remains on the level of philosophical abstraction or moves to market implementation, what becomes clear from Machlup's concerns of the past century and those of contemporary writers is the need for communal cooperation. Just as classical and developmental economists always recognize the need for a social context for economic activity, whether it was moral or political or legal (and probably all of those combined), so, too, we can appreciate that the knowledge industry is a collective effort. The collective nature of knowledge production, distribution, and consumption is evident not only when we speak of public schools that educate the youth, but also when corporate leaders make decisions that affect their businesses. Just as exchanges in the marketplace, as we have seen in the previous chapter, hinge on the invisible hand of an impartial spectator, so does the genius of a single individual depend on the acquired knowledge of previous generations or of those collecting and organizing data in the present. Robert Merton, one of the leading sociologists of science of the twentieth century, has devoted an entire book to the oft-quoted phrase attributed to Newton that the reason he has been able to have his insights (otherwise put, to see farther than others) is because he has been standing on the shoulders of giants (Merton 1965). One could say that Newton was modest, but one could also say that Newton realized that his own ideas were embedded in and were the results of the ideas of others. This is in line with the view of the accumulation of knowledge and the general rules and laws that come out of such an accumulation.

Moreover, this view also acknowledges the need for group effort rather than the effort of a single genius. Contemporary believers in this view, such as Nathan Myhrvold (former head of Microsoft's research division), put their belief into practice, in this case, by founding Intellectual Ventures, LLC as a mechanism to bring together the insights of many intellectuals and provide a cooperative environment for scientific and technological discoveries. The history of science and technology has taught us that multiple inventions are not rare, but rather common, because, as they claim, the ideas are in the air, and it is only by accident who comes to be credited with bringing them to fruition (Gladwell 2008). Now, of course, in financial terms, there is much at stake when one does or does not get credit for an invention, for an idea that can be commercially produced and sold. These concerns of Intellectual Property will be addressed more fully in the next chapter. In the meantime, I wish to pull together what I see as a consensus extending from Adam Smith to some in the present in regard to the communal foundation of our knowledge and education as they bring about a more productive, and if you wish happier, marketplace.

But when speaking of cooperation and collaboration among many thinkers and researchers, data collectors and analysts, we might find out that there is not as much cooperation as we may have expected. What is it that prevents more, rather than less, interaction and intellectual cooperation? Perhaps the term is *trust,* as Nicholas Rescher aptly reminds us:

> Only through cooperation based on mutual trust can we address issues whose effective resolution makes demands that are too great for any one of us alone. In the development and management of information, people are constantly impelled toward a system of collaborative social practices—an operational code of incentives and sanctions that consolidates and supports collective solidarity and mutual support. In this division of labor, trust results from what is, to all intents and purposes, a custom consolidated compact to conduct their affairs in friendly collaboration. (Rescher 1989, 43)

Rescher brings up the classical economic model that promotes division of labor, but sees this particular sector of the economy, and perhaps our educational life as a whole, as being dominated by mutual support and collaboration. Perhaps some tasks are too big, as we have seen in the last century with Big Science projects, like the Manhattan Project that delivered us the atomic bomb; perhaps even when the tasks are smaller, the human mind cannot cope with so much data at once and therefore needs the help of others; finally, perhaps the interdisciplinary collaboration among specialists in different areas of research might be more productive than staying within one's own narrow area of expertise. (For more on this issue, see Sassower 1993.)

We have seen in the history of philosophy how important Socrates' dialectical method of questions and answers was in developing our inquiries and the human mind. Continuing this line of argument, we can document the developments in the history of ideas as a process whereby one innovation after the other is indeed a response to previous thinkers, ideas, texts, and intellectual frameworks. But instead of trying to prove that collaboration is in fact what we are used to, perhaps we should ask why it never was the prescribed method of producing knowledge (even when it was in use)? Among the many answers, I venture to claim that the disclosure of one's ignorance and the disclosure of one's limited knowledge can be appreciated as the main reasons for withholding information or being leery of collaborating. Socrates prided himself on his ignorance and on his quest for intellectual exchange, and Newton claimed to be merely the beneficiary of the genius of his predecessors; but how many of us are embarrassed to say: I do not know, instead of fabricating half-truths and skirting the question altogether? How many of us welcome full exposure of our state of knowledge? With this in mind, I wish to return for a minute to Rescher, himself a philosopher, who frames collaboration as an economic prescription, rather than dwelling on the psychopathologies that might plague some of us. Admitting that knowledge is power, as so many before and after him have agreed, he continues:

> But the hoarding of knowledge—monopolization, secretiveness, collaboration avoidance—is generally counterproductive. In anything like ordinary circumstances, mutual aid in the development and handling of information is highly cost effective. The way in which people build up epistemic credibility in cognitive contexts is structurally the same as that in which they build up financial credit in economic contexts. Considerations of cost effectiveness—of economic rationality, in short—operate to ensure that any group of rational inquirers will in the end become a community of sorts, bound together by a shared practice of trust and cooperation. (1989, 33)

Rescher not only uses the economic terminology to explain the rationale for collaboration, he almost makes it sound inevitable when comparing it to building credit in the financial markets. You must have money or assets to be creditworthy, but your money is deposited somewhere, and your assets are designated as such based on public records. Before you know it, your financial worth is defined by others, and not simply by your own declaration. As explained in the first chapter, credit scores might allow you to buy a house (get a mortgage) or might, conversely, prevent you from getting a car loan: They determine who you are in the marketplace and what role you are licensed to play in it. Likewise, our intellectual work is sanctioned by others, is quoted in others' work (such as with mine here), is paid for when the research can yield financial benefits, and is understood more communally than individually. It is true that this or that person will get credit here and there, or that his or her name will make the headlines; but only a wholly egomaniacal person will ever deny that others contributed to her or his success.

Taxing Knowledge: Why Pay Twice for GPS?

As mentioned previously, one of the areas in which credit to individual researchers or practitioners is broadly divided or treated as a group effort is so-called Big Science undertakings. During and after World War II, military needs, perceived or real, provided infrastructure and funding for enormous projects, like the Manhattan Project for the development of the atomic bomb. Instead of reviewing the history of this project (see, for example, VanDeMark 2003) and all the unintended consequences related to it (see, for example, Rabi 1970), what interests me here is the way in which we have shifted as a culture from focusing on individual scientists and their research to large laboratories funded by government agencies through academic or private institutions. When Big Science projects began to dominate the scientific scene, they also shifted our focus from the theoretical research undertaken, as Einstein used to quip, where a pencil was sufficient to scribble insights, to the need for large sums of money to organize experiments and analyze their results. The shift is indeed a movement toward what has been termed *technoscience,* where science and technology are enmeshed in a reciprocal relationship, so that the insights of the one inform the other without any sense of chronological or logical priorities. The Manhattan Project (primarily but not exclusively undertaken in Los Alamos, New Mexico) was the major exemplar of such a success, because theoretical scientists and engineers collaborated daily in order to achieve a specific goal.

Though I have argued elsewhere (Sassower 1997) about the transformation of technoscientific ambiguity into anxiety and anguish and tried to relate the technoscientific feat accomplished during the Manhattan Project to the ultimate responsibility borne by its community, I said little about the sense of collaboration among the group. Perhaps in part because of this particular case, and perhaps because of the appreciation of the emergence of Big Science projects around the world, philosophers, historians, and sociologists of science stopped talking about science as such and instead began talking about the scientific enterprise and the scientific community. Once you move the discussion from science to scientists, once you move from the pristine confines of theoretical exploration to the practical application of principles and theories, certain complexities come to light. This is not to say, as was seen in the previous section, that individual research is not informed by the research of others, and that there are not some ethical considerations that must be appreciated, but rather that the consequences might be more radical and dangerous, as was the case when bombs were dropped on Hiroshima and Nagasaki.

The concern with the scientific community, its budgets and oversight, is a concern that is not limited to what Thomas Kuhn (1970), among others, understood in terms of the education and socialization of young researchers into existing paradigms—at least in the context of normal science where no revolutionary ideas break down the existing paradigm and everyone contributes to solving given puzzles—but is also related to public relations concerns for congressional appropriation, for example, or the potential for future success. I have studied these concerns elsewhere (Sassower 1995) and shown that in the case of the Superconducting Supercollider the rhetoric of those soliciting funding as well as local groups that vied for the project to be built in their backyards as economic bonanzas depended less on the technoscientific substance of the project and more on the images that could be conjured on its behalf. In one instance the proposed project of colliding subatomic particles in a fifty-two-mile long tunnel was compared to the manned landing on the moon and in another to the building of the pyramids (Sassower 1995, ch. 1). Eventually the project was not funded because of the uncertainties of its ballooning budget (from $2 to $11 billion), but not before it received all the necessary political endorsements and those of the parties that could benefit from its funding. Such examples of Big Science, including, more recently, the Human Genome Project, illustrate that by the end of the twentieth century the United States was providing funding under the guise of National Security or on behalf of the national interest so as to maintain its global image as a leading scientific and economic power in the international community. As long as these projects conform to the criteria under which national funding is justified, we consider them as public goods, namely, those activities and services that are paid by taxation and benefit, without exclusions or differentiation, by all members of a society. Though each individual might not see the direct benefit from this or that project, she or he can appreciate how all of these projects collectively ensure the safety and well-being of society.

The case of the Global Positioning System (GPS) could well fall within this broad category of public projects that are paid for by society as a whole for our collective benefit. Just as nuclear fission was originally used for the purpose of building a bomb for military use, eventually this knowledge about the behavior of subatomic particles and the way their energy could be harnessed was used by utility companies in the construction of power plants. The transformation from military to civilian use could be easily justified because this new technology benefited society, and the enormous investment undertaken by the Department of Defense transcended its original intent. A public utility company, according to *Black's Law Dictionary,* is a

> privately owned and operated business whose services are so essential to the general public as to justify the grant of special franchises for the use of public property of the right of eminent domain, in consideration of which the owners must serve all persons who apply, without discrimination.... To constitute a true public utility, the devotion to public use must be of such character that the public generally, of that part of it which has been served and which has accepted the service, has the legal right to demand that service shall be conducted, so long as it is continued, with reasonable efficiency under reasonable charges. (1979, 1108–1109)

So, five elements make up this particular definition of a utility company: First, it is privately owned; second, it has access to private property on behalf of society; third, being entrusted with the provision of a public good, it cannot discriminate against any individual or class of individuals; fourth, the recipients have rights in regard to how the company is run; and fifth, no monopoly abuse would be allowed in terms of fees being charged (see also, Pace et al., 1995, 184–186). Utility companies are therefore regulated differently than other private companies, so that their monopoly status and of course the economies of scale such a monopoly enjoys (in terms of efficiency) do not adversely affect consumers. There are, of course, some utilities that are publicly owned (e.g., in Colorado Springs, Colorado, and Sacramento, California) even in the United States, and in many other countries it is much more prevalent that the state owns its utilities, primarily, one could surmise, for national security purposes.

The case of nuclear power plants parallels the kind of concerns that have been brought up by GPS: What are the policy concerns we should have with the multiple uses that both military, transportation, civil, and commercial interests have? Is there potentially a conflict among these multiple uses? The Critical Technologies Institute of RAND prepared a report for the Executive Office of the President, Office of Science and Technology Policy in 1995, in which these concerns and many others are carefully discussed. It is fascinating to see, given it is an independent entity, how national security concerns permeate the report, both in domestic and international terms. Incidentally, the United States is not alone in developing technologies that are global in scope, as can be seen with the Galileo project undertaken by the European Community (with whom an agreement was signed in 2004 to ensure communication cooperation). The main problem from their perspective is the rapid proliferation of the technology and its application across boundaries that were initially more easily delineated: As a military project, GPS was exclusively used for naval navigation and antimissile detection, and the kind of personal use we are accustomed to enjoy today, from cell phones and personal computers to cars and the Internet, was hardly anticipated. Instead of reviewing the technical history of the GPS or its detailed functions (which are changing as we speak), I would rather focus on the commercial or financial elements that make this technology and the knowledge-basis it enjoys problematic in terms of costs and fees.

Obviously, as a Department of Defense project, GPS was financed through funding appropriation from collected taxes. Taxpayers paid $10 billion over a couple of decades to get to a point where commercial use was available at the consumer level. From the RAND report we learn first that there should be a "national GPS policy that will provide a predictable environment for future business decision" and second that "the 'no-fee' approach is a technical necessity arising from the nature of GPS signals" (Pace et al. 1995, xxi). As we can see, Rosenstein-Rodan's ghost is still with us: We would like to share information in such a way so as to ensure low risks for future investments, and a national policy regarding GPS would help create a business environment where companies would more readily invest, knowing that a "predictable environment" is being established. For example, this would mean, as we see in regard to the "no-fee" policy, that a business plan that outlined capital needs for infrastructure could assume no fees for signal acquisition, even though they would need to invest in transmission technologies. Whenever business decisions have to be made in an unpredictable environment, it is safer not to make them or to decide not to invest at all, rather than face high fees that cannot be passed on to the consumers as final users. It is with this in mind that the report recommends that "the United States should issue a statement of national policy (e.g., a Presidential Decision Directive) on the Global Positioning System to provide a more stable framework for public and private sector decision-making" (xxv and 147). Incidentally, according to the authors of this report, after Soviet interceptor aircraft shot down a civilian airliner KAL 007 in 1983 in restricted Soviet airspace, killing all 269 passengers and crew on board, President Reagan announced that once the GPS was completed it would be available for civilian use. This disaster, in retrospect, could have been avoided had the pilot accurately known the position of the aircraft, so as to avoid restricted foreign airspace.

As we see from the debates about GPS, "commercialization and privatization of all or parts of the GPS" might not be "consistent with U.S. security, safety, and economic interests" (6), and, therefore, might warrant relying on government agencies for the construction and maintenance of such a system. As the authors observe, the case of GPS really falls in the gray area between clearly defined boundaries of the public and private sectors, and, therefore, it helps challenge our standard views of the superiority and exclusivity of the American capitalist system. In their words,

> In one sense, GPS is a model dual-use technology in which military development leads to civil and commercial benefits beyond what was originally intended for the program. In another sense, GPS is a commercially driven information technology, like high-speed data networks and mobile communication, which is affecting the nature of national and international security. (11)

What this ambivalence in approach brings to light, from this perspective, is how "original equipment manufacturers" (who are contracted by the

Department of Defense but remain privately owned) “cooperate when common interests are at stake” so as to remain competitive (despite government contracts) and efficient (to increase their profits) (33). But those manufacturers are not the only ones affected by policies related to GPS, as the authors acknowledge, because the chain of connections is much longer and more complex (41), and decision-making processes cannot be limited to Department of Defense directives or to commercial entities that wish to maximize their profits through an ever-expanding market for their products. Moreover, the balance of diverse interests of those participating in and affected by the proliferation of GPS devices will itself be shifting over time, because the share the military uses in the aviation and marine areas is shrinking relative to the share of civilian consumers. Finally, the report surveys the increase in patent application both domestically and internationally in all GPS-related areas so as to illustrate the shrinkage of the dominance of military research and development of GPS technology (114–127).

As we observed in the previous chapter, there are some areas of research and development that would make no commercial investment sense, and some that would. Judgment about these situations is left to individual companies in the marketplace, given the classical and neoclassical capitalist models. However, as we see in the case of the GPS, no commercial entity, no matter how large, would have invested some $10 billion over two decades in the hope of reaping some profits in the future, especially because at its inception no civilian applications were apparent. The military, by contrast, brings into its calculations a set of security and autonomy concerns that supersede any concern for financial viability or a return on investment: Maintaining military superiority in the global arena is not measured by dollars and cents, but rather by how many lives can be protected or saved or as some would term it, how this affects national security concerns. If the military deems an investment essential for national security, and if it can convince Congress to appropriate funding for such an investment, then it will undertake to complete such a project. Some projects fail, and we might never hear about them; some succeed, but remain classified; and some, like the GPS, eventually have commercial applications that transcend anything military in nature. Bringing them into focus under financial calculations alone would be difficult in many ways, because direct fee collections by the government (in addition to already collected taxes) would be expensive and perhaps not worth it at all (150–154, 168–175). To put this in perspective, the annual cost to the Air Force of maintaining the GPS is about $400 million, which is a fairly insignificant amount in relation to other costs of maintaining national security (174).

It is interesting to note here that the Internet was also initially developed as a military research program, but unlike the initial investment in satellites, monitoring stations, master control stations, and ground antennas required of the GPS, there was no hardware required for development of the Internet. Instead, what was required to make everything operational was an agreement on a set of standards and protocols that would allow global communication. There remain, in both cases, legal and security issues, as well as access and fees concerns, so that the use of the systems will remain uninterrupted. The GPS can assist in knowing *where* one is, and the Internet can help in discovering *who* one is. But what makes these two kinds of knowledge both useful and enlightening makes them also problematic: Who else could know where you are and who you are? What kind of surveillance is inadvertently available to a third party about whom you know nothing? As we have seen after the September 11, 2001, catastrophe, Congress was quick to grant the executive branch of the government broad measures and a great deal of latitude to conduct whatever secret inquiries regarding any suspected citizen without proper review by the courts. Our own constitutional checks and balances were suspended because of a perceived emergency, and the president could use the latest technologies to violate our most basic privacy rights. The GPS and the Internet moved from military uses to personal civilian ones and then reverted back to government uses and abuses under the guise of national security. I will argue later that just because government agencies provide the conditions for marketplace developments and successes does not give them the right to interfere with individual rights, such as privacy. It is one thing to provide the conditions or institutions, the infrastructure, of a society, and quite another to use particular institutions for control and surveillance.

Academic Institutions of the Future

Academic institutions from their very conception in the eleventh century had a dual mission: to train young people to use specific skills and to perpetuate the existing political power relations. The first mission has been a moving target, from the duplication of manuscripts all the way to the present concern with computer technology and the production of knowledge in cyberspace, and the second mission shifted from the respect paid to religious authorities to the respect paid to corporate and military authorities whose funding largesse remains on the minds of academics. Academic institutions, as I have argued elsewhere (Sassower 2000), could be a refuge for intellectuals if understood correctly by the general public. By this I mean a way of allowing for the fermentation and exchange of ideas among disinterested members of the academy. This is different from the charge that Paulo Freire (1972), for example, has for pedagogy as an instrument for political transformation through liberation education. Instead, my own concern was to find a way for the academy to be insulated from political pressures and be granted a sanctuary of sorts for the benefit of society as a whole, rather than for the benefit of this or that particular interest, should it be political, military, or financial.

This is not to say that Freire, following to some extent the example of the Italian Marxist Antonio Gramsci, is *misguided* in any sense of the term. Rather, intellectuals who have been vocal about the role of intellectuals in the future, whether as "organic intellectuals," who are the vanguard of the revolutionary forces of their countries (in Gramsci's sense), or as a "new class" that is capable of fighting for changes because "knowledge and knowledge systems are important in shaping social outcomes" (in Gouldner's 1979, 5, sense), have always had a moral injunction for them regardless of their actual or potential political power. The moral high ground, so to speak, is a good starting point insofar as it fosters a certain level of responsibility on those who should know better, who should be able to see the big picture of the political and economic situation and educate others and disrupt accepted norms and provide alternatives to them. But the starting point cannot be the end point; it needs a process and an environment in which to flourish and bring about results. The results, whatever they might be, and the environment of the academy seem at times too detached from the realities of the marketplace, so that many confusions and misunderstandings are in the way. For example, should the knowledge production that takes place in research institutions be for the service of the rest of society or for the exclusive benefit of faculty members and their students? Should that knowledge be produced for specific purposes, as we have seen earlier in the case of the Manhattan Project and the GPS, or should it remain always "basic" and "pure" as means for more practical applications by industry?

These questions were answered in specific ways by some, like Clark Kerr, the former president and chancellor of the University of California, Berkeley, in historical terms. It is as if each period of history has its own vision and image of what intellectuals' role in society ought to be and how academic institutions, universities and colleges, should bring about their fruition. Kerr builds his argument about the "multiversity" on Machlup's ideas, which we covered earlier in the chapter (Kerr 1995, 66), insofar as he appreciates the magnitude and future potential of the knowledge industry within the economy. And in following this line of thinking, Kerr is open to the idea that the university has become an instrument for the marketplace not only in training qualified people for the workforce—a notion already expressed by Adam Smith more than two hundred years ago—but also in terms of the specific research needed by the military and industry. The university, then, is not an incidental part of the culture or a monastery-like institution for higher contemplation, but instead is an essential component of the development and advancement of the economy and society (192–194). It is fascinating to note in this context that the social need to invest in institutions of higher learning must be pleaded for by academic leaders because of funding pressures from other sectors, such as prisons (196–197). As much as the university system is still crucial for relatively inexpensive research, using as it does, the army of unemployed research assistants and graduate students, there are still pressures on its budgets and an ongoing culture of distrust from the public at large (the American phenomenon of anti-intellectualism) and from policymakers who believe that learning is not as important as doing. And, of course, advances in communication technologies are progressively undermining the need for classrooms and lecture halls as we have traditionally known them.

The fact that the Internet has changed our knowledge-gathering apparatus and techniques is obvious, whether one uses Wikipedia (an open-source and free encyclopedia) or any other Web site that has a database, but what is not obvious is how this has affected our knowledge production, distribution, and consumption. Just because we have more access to knowledge available to us for free does not necessarily mean that we know more or that our knowledge terrain has necessary been enriched or increased. Can one trust what one finds on the Internet? What qualifies as trustworthy knowledge? What filters and criteria are set in place to ensure the credibility of the data on the Internet? Technological advances have made a difference in our culture not only in terms of access to knowledge (through the Internet), but also in terms of the production of knowledge (universities are not the only sites for such production). Moreover, the distribution mechanisms of old, such as academic institutions, turn out to be serving only one-quarter of their clients (students) as full-time residential students. Adult learners who are no longer financially dependent on their parents, who have responsibilities outside the learning environment, and who are identifying themselves in terms other than being students (and in many cases are older than traditional postsecondary education students) make up three-quarters of those who are in the knowledge-acquisition mode (Council for Adult and Experiential Learning 1999). Some of these adult learners still join, on a part-time basis, academic institutions, but some are taking courses here and there on the Internet or join professional groups that offer online courses for enrichment or for the purpose of switching jobs and acquiring a new skill-set.

The fact that more public universities depend on funding outside traditional sources (state allocation and research grants) has meant that they cater to a broader audience of potential clients and, because of that, have become more sensitive to economic needs and technological changes. What emerges in this stage of pedagogical transformation is neither the complicity alluded to by Kerr of the university being the servant of the military-industrial complex nor the complacency of liberal and classical education of the ancients (learning as a calling and vocation). Instead, we come to see a more integrated, and, of course, clumsy at times, process of providing knowledge-acquisition and processing skills that are needed by society at large as opposed to this or that particular interest group. As this process becomes more elaborate and sophisticated it pushes the entire economy from manufacturing and agriculture to service and knowledge industries. As a country we produce and export patents and intellectual property, scientific research, higher education, advertising, images and films, music and news, networks and databases, and this production overall takes more and more of our resources in terms of capital and human investments so that we can distinguish ourselves from other countries where manual labor is cheaper and where natural resources are more abundant.

The way this figures into the general argument of this book is the extent to which the marketplace needs broader social, political, and legal support: If the marketplace is indeed about knowledge and information, about data collecting and processing, and about the ways in which innovations can effectively transform and improve our culture, then we ought to worry, as a society, about improving the conditions under which this marketplace can thrive. Once again, this is not a vision of obliterating the marketplace and replacing it with a socialist or Orwellian centralized planning agency (which in turn can be translated into a utopian or dystopian narrative). Instead, this is a vision and a recommendation for changing the conditions under which the markets for knowledge can be more efficient and allow for greater freedom and justice. The university system plays a crucial role in bringing this vision one step closer to completion, however imperfect this completion will necessarily remain (see Karabell 1998). But the role the university system plays is not limited to what Kerr imagined it in the provision of research and technologies and skilled labor into the marketplace. It seems to me that the academic or university system has a broader mission even within this framework. It goes without saying that the university system ought to train critical and analytical people who will then become more informed and more engaged citizens in society. But what also goes on in the university, and what is unique to it despite its medieval genealogy (Schachner 1938), is the fact that the university provides a microcosm of the society in which it operates, because it is a relatively small community where competition for power and prestige, for funds and careers, presage what is happening and what will be happening in the general community at large.

If this is the case, then a dose of political reality needs to be part of the discussion about the role and future of the university system. So, it might be odd that the kind of imploration regarding the role of the academy ends up being proposed simultaneously by the so-called right and left of the political spectrum. Perhaps the main reason for this is the deep conviction that the academy, the university system, the educational national apparatus we have been speaking of is part and parcel of society and as such is influenced by its political, ideological, social, and economic factors and conditions. The notion that academic institutions are outside the mainstream of the culture or that they remain insulated from its influences is no longer tenable in the twenty-first century. The information age is propped by the academy and finds its own genealogy linked to it in a mutually beneficial and reciprocal way. In his *The Knowledge Factory,* Stanley Aronowitz reminds us that "nearly ten percent of the adult population under age sixty-five is enrolled in vocational, technical, or liberal arts college[s] and millions of others have already earned postsecondary credentials" (Aronowitz 2000, 3). But this stunning statistical data are always contextualized in terms of the relationship between the knowledge factory and the workforce, between how knowledge is produced by the academy and its usefulness to the military-industrial complex, so that, in Aronowitz's words, "garden variety social scientists" are "the intellectual servants of power" (4). Kerr's vision, then, has become the dominant view of the importance of the university system in producing useful knowledge for the marketplace and the state, from industrial and military applications to domestic and international policies (Aronowitz, 30–45). In describing the current state of affairs of higher education in the United States, Aronowitz laments the lack of critical and even creative thinking and writing in the academy, a place that has become nothing more than a factory for the preparation of a trained workforce almost in the mold envisioned by Smith some two hundred years ago. What about the transformative power of learning? What about the potential for change and the incorporation of new, at times subversive, ideas that counter the mainstream ideology of capitalist power relations?

It seems that the view from the left remains grim, for there seems to be no way out of the financial indebtedness of the academy to corporate America, in the form of grants and subsidies, research funding, and the establishment of academic and policy centers. As Peter McLaren claims, "As schools continue to be financed more and more by corporations that function as service industries for transnational capitalism, and as bourgeois think-tank profiteerism prevails in guiding educational policy and practice, the U.S. population faces a challenging educational reality" (Castells et al. 1999, 15). McLaren's concern is not solely with the influence of corporate America, but also with the misguided notion that in the information age more and better-paying jobs will be created and that this would lead to a global democratization of the workplace. Instead, he claims, there is greater devastation in the global economy, because this new age of communication and information technologies helps concentrate knowledge and wealth in fewer and fewer hands and thereby increase global unemployment, misery, and injustice (16ff.). The concentration of economic power translates, as far as Manuel Castells is concerned, into political power that is codified culturally. Unlike the postindustrial revolutions of the twentieth century, the current information age is one that will dramatically change not only social and power relations, but the very structures through which knowledge and information have been produced and distributed. The fact that this is both a global issue and a pervasive feature of all knowledge production will eventually transform the way we see ourselves in relation to others (40–47). Whereas education seems to have been the rallying cry for decreased inequalities, as a form of democratization not only in the workplace but in society in general, there are those, like Ramon Flecha, who suggest that the education process itself can cause unforeseen future inequalities (Castells et al., 65ff.).

What the leftist critics have managed to explain is that the promises of the information age, regarding the shift from manual and menial labor to cognitive and intellectual labor, might fall short if not attended to in the social and political arenas. One cannot rely on the marketplace alone to ensure greater equality and justice among the population simply because we are already at the dawn of the twenty-first century. Instead, we must find ways to improve on what we have already accomplished and ensure that democratic institutions are preserved through academic and cultural institutions rather than diminish in power and prominence in the face of a growing economy and a stronger international marketplace. Pedagogical practices can be of help, according to Henry Giroux, a leading educational reformer who strikes an optimistic note in the midst of the doom and gloom expressed by his fellow-academics. For him, the transformation from modernist to postmodern pedagogy is one that appreciates the demise of notions of certainty and progress, rationality and universalism, as inadequate to handle the cultural diversity and ethnic pluralism of the postmodern world. Academic institutions, and by extension, other financial and political and cultural institutions, remain modernist and as such too rigid to handle the fluidity required in the information age, where knowledge is produced everywhere and anywhere and not only within the confines of research universities (Castells et al., 93ff.). This would mean, for example, a greater openness to critical ideas and a more receptive forum for incorporating different concepts and values that have been previously deemed inappropriate or uninteresting. The Internet can play a role in ensuring some level of public access and critical openness. By this I do not mean more access to databases, which, as Wikipedia has shown, can be open to public scrutiny and contribution (open-source work), but a way to enhance the democratization of knowledge consumption. It is true that some search engines, like Google, can be skewed in some ways because of the auctions that allow some names or concepts or companies to buy their way to the top of any list, but this alone does not make the entire enterprise suspect or worthless. With a little training, the elderly, for example, have become better advocates of their own health management (Campbell and Wabby 2003), and thus are less anxious about using computers to seek information through Web sites, such as ElderCareOnline. Likewise, young people are more likely to find opportunities that were unavailable to them in previous generations regarding data sources and interpersonal communication (and this is not limited to YouTube, but extends to entertainment venues and materials).

Another way of thinking of the university system, one that has educated more than one-third of the population, is that in the chain of production, distribution, and consumption of knowledge, it encompasses all of these three steps or these three links in the chain and extends them beyond its own confines. New research and technologies emanate from the university, the university through its regular curriculum and through all of its additional forms of education—adult learning, extended studies, study abroad, foreign student exchange, K–12 teacher training and accreditation, online courses, local television programming, and continuing education of professional organizations—distributes knowledge, and finally it is one of the most intense consumers of knowledge through its faculty, graduate and undergraduate students, and all the peripheral community-service programs it fosters. In short, the university system, broadly conceived, plays multiple roles in enhancing the knowledge industries. If we are looking for ways in which the community can support its marketplace so that mutual and reciprocal benefits are more likely to be present, the university system provides a convenient place to focus on such support. With little funding, a campus can become the center for intellectual and cultural and technologically interesting activities that the entire community can support.

Though the focus so far has been on knowledge production, distribution, and consumption, one should remember to include the activities the community should support and that will improve the community, such things like dances and concerts, art fairs and theater, sporting events and public debates. Just as we learn to appreciate the dictum of "on the shoulders of giants" as a way to express respect for the knowledge of the past that allows us in the present to look farther into the future, so can we appreciate the group effort it takes to put on a play, a concert, or even a sporting event, in a manner already acknowledged by Machlup's taxonomy of knowledge. In all of these fields and subdisciplines, it is clear to all participants that the collective effort of many provides for the condition of success for every individual, may she or he be a scientist, engineer, football player, or actor. The idea that one emerges on the set or the stage fully formed without the help of many others is a folly we all admit to. So, in this spirit, the academy can become an exemplar of what the future has in store for us, despite its hierarchy and power structure, its insecurities and rigid rules, because it is also a community of scholars, some more senior and mature, and others in the making. As a sign that this is not only wishful thinking, there is a growing literature on mentoring in the academy because of and not despite the different roles of professors and students or senior and junior professors (see Johnson 2007). All we need in order to make this community a role model for the marketplace and society as a whole is to keep it open, in the Popperian sense of the Open Society (1966), and always critical and self-critical. These two conditions will ensure that the academy does not become self-righteous and insulated from its surroundings, and that it will remain self-correcting when new ideas and suggestions implore it to change and transform, grow and respond to a larger audience than it has traditionally responded to. When it does so, even if it does accept grants and funding from political powers or the marketplace, it will remain independent and critical, without bowing its head to the authorities, without losing its integrity.

In order not to conclude this chapter on a high note that will be dismissed by those concerned with the financial realities of the academy (and those of the economy in general), we could say that even when marketplace efficiency restricts the unbridled expenditure of the academy (its inherent waste of buying books and providing facilities), this alone does not undermine the potential for insisting on maintaining integrity on campus, whether of academic research or budgeting. Every exchange within the community of scholars and students must be driven by a deep commitment to retain one's integrity and improve the overall conditions of the community. And this commitment, as we have seen in the previous chapter, has been set in motion by Adam Smith in his model of our moral sentiments and how they should be regarded socially as well as individually. Moreover, as we are seeing now in the financial crises of 2008, this commitment can be easily met when we provide regulatory mechanisms by which not only integrity, but also efficiency, can be clearly documented and accounted for. As the academy has learned over the years, the pragmatic price of accountability is worth paying for academic freedom and responsible spending.

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Chapter 3

Individualism and the Community

From Competition to Cooperation

Whereas the first chapter illustrated the extent to which individual activity in the marketplace is conditioned by the larger framework supplied by the state, the second chapter focused on the particular nature of the marketplace in the information age. Both chapters remind us that the classical capitalist model has never really materialized or been implemented over the past two centuries, but rather only some variant of that model, a truncated model that has worked fairly well insofar as it has adapted to changing technical and social circumstances, from industrialization to urbanization. Adam Smith's vision of the division of labor is by now commonplace not only in factories (or what has been called Fordism after the assembly-lines at Ford Motor company), but also in virtual offices that use the Internet as a means of cheap communication. Likewise, Smith's concern with efficient markets as conduits of information exchange, including the pricing of goods and services (or what some call market supply and demand), has borne its own fruits in domestic and international markets. But these insights, attributed to Smith and to the classical economists of his era and further developed some hundred years later by neoclassical economists by means of more sophisticated mathematical tools, were couched in a deep intellectual appreciation of the moral foundation that could bring about and nourish such market behavior. The marketplace, in short, was not and could not be divorced from the larger social, political, moral, and legal frameworks that supported its formation and protected its smooth functioning, and, therefore, required a pragmatic approach to solving its inherent problems.

This point about the larger context of market behavior is worth belaboring because it also helps us appreciate the folly of appealing to *homo economicus,* the rational economic man, who is supposed to be the prototype for market behavior, one whose choices are exclusively driven by rational assessment of risks and opportunities, by self-interest and the consequences of any decision or choice. As we saw in the previous two chapters, contemporary behavioral economists acknowledge this folly and have collected impressive data from numerous experiments (admittedly primarily run with students on university campuses) to show the extent to which humans are more often than not irrational in their choices and decision-making processes. Put differently, one is tempted to revisit the history of ideas so as to find all the instances in which thinkers have debated the balance between human cognition and emotions, between one's rational faculties and one's feelings: Can we control our emotions? Should we? I will have more to say about this topic in the next chapter. At this juncture, I would like to extend our discussion of the conditions under which individual success can be fostered and must be appreciated.

The standard view of contemporary economists and businesspeople regarding human emotions or, more accurately, human nature, is that humans are driven by fear and greed. I heard that much from no other than Robert Rubin, the former treasury secretary in the Clinton Administration, and a major figure in the investment banking industries in his various positions and roles in financial giants, including Goldman Sachs and Citicorp. What are the implications of this view of human nature? Does this mean that we can gauge and judge human behavior in these terms? Moreover, does fear motivate people to behave in particular ways, just as greed does? Is the fear in question here the kind that terrifies us and paralyzes us, or the kind that pushes us to do irrational things we later regret? Is the greed the kind that motivates or induces us to step on each other's toes to climb higher on a ladder of financial rewards, or the benign one that encourages us to help others in the hope that this help will be reciprocated or will have some personal benefits attached to it? I raise these questions here not simply as theoretical constructs, but in light of the calamities suffered during the 2008–2009 financial crises. Fear and greed, whether in the mortgage industry or elsewhere on Wall Street, have indeed pushed the economy into a new abyss, one that will take a long time to exit. I also raise these questions in light of a great many experiments undertaken in the 1970s and 1980s that attempted to gauge the levels of greed and fear in individuals. Admittedly most of the subjects of these experiments were students (e.g., Thaler 1992, 16ff.). In this sense, then, I also wish to examine the financial reasons for cooperating both domestically and internationally, moving our thinking and perception to wider horizons that are intimately connected to the behavior of the marketplace, might it be one of goods and services or of ideas and relationships. But instead of undertaking a full-fledged examination of the entire marketplace, I will limit my focus to venture capital firms that in some ways incorporate more vividly the ideals of the capitalist marketplace.

Venture Capitalists and Angels: From Greed to Philanthropy

It should be noted from the outset of this section that what has been viewed as a marginal source of financing will become the major source of financing in the near future, as commercial banks and traditional investment banks will become more and more regulated, and, therefore, will be less and less adventurous in financing innovation and creativity. As the 2008 financial crises remind us, even those with capital are less likely to invest in traditional financial instruments because of the inherent instability of these instruments and the potential for loss. My prediction is that even those in the comfortable, but slowly disappearing middle class will find themselves seeking out investment opportunities as means of savings for their retirement. These opportunities will more likely come through small, local venture companies whose direct involvement with their clients on both sides—the investors and the adventurers—could bring about a certain level of security and comfort that banks no longer can provide. Some, of course, will be the large-scale, more traditional venture capital firms whose history I recount here. But even they, as Jon Gertner (2008) suggests, are bound to walk a fine line between caring about green technologies of the future and profits, especially because their investments (and those of others like them) already account for close to 20 percent of the investments of the private sector.

One of the few historically informed books on venture capital and its American formation in the past century is by Spencer Ante (2008). Following the career of one French-born professor from Harvard Business School, Ante contextualizes the great transformation of the American business landscape in these terms:

> In the second half of the twentieth century, the United States experienced a historic transformation, in which a society dominated by large corporations such as Standard Oil, U.S. Steel, and General Motors shifted to a nation driven by venture-backed start-ups such as Digital Equipment Corporation, Intel Corporation, Microsoft, Starbucks, and many others. . . . A recent study by the National Venture Capital Association found that U.S. venture-backed

> companies between 1970 and 2005 accounted for ten million jobs and nearly 17 percent of the nation's gross domestic product. (xix)

In addition to providing a comprehensive biographical account of Georges Doriot, the founder of the American research and development company that was underwriting some of the first venture-backed companies on the East Coast, Ante explains how difficult it was to convince wealthy Americans to invest in risky new ventures, especially in the new computer-driven terrain whose technology was unfamiliar to aging wealthy investors. Ante recounts, step-by-step, every trial and tribulation that Doriot underwent in order to support and eventually be vindicated with his investment in Digital Equipment under the leadership of Ken Olsen in the 1960s. He concludes by saying that "in nine years, ARD's $70,000 investment had skyrocketed in value by a factor of five hundred, validating Doriot's model and proving the shortsightedness of SEC inspectors" (196). This investment "was the venture capital industry's first home run, single-handedly proving that venture capitalists could generate enormous wealth by backing the leader of a hot new business" (197).

When we think of venture capital, we commonly think of the original Silicon Valley phenomenon and the West Coast, where the proliferation of computer companies has been in the news. But, as Ante reminds us, the industry was "pioneered by ARD and a few other Northeastern firms in the three decades following World War II" (227). Their prominence was due in part to the combination of MIT as the premier engineering university and Harvard as the premier business and management university in the United States. The Boston area became the locus of numerous research centers that were heavily funded by the Department of Defense, and, because of that, drew a large number of researchers that eventually went on their own, like Ken Olsen of Digital. In addition to the growing prominence of the University of California system, the California Institute of Technology and the relatively new Stanford University provided a nexus of creative centers of excellence that were nurtured, among others, by Stanford's provost Frederick Terman, according to Ante (227–228). Attracting capital to such a concentration of scientific and engineering talent was relatively easy after seeing the success of the Boston area. Ante mentions some of the pioneers on the West Coast, such as Draper, Gaither & Anderson, founded in 1958, and Davis & Rock, capitalized in 1961 with $5 million. To compare these ventures with ARD, Ante records that "in their first year, Davis & Rock put up $280,000 to help start Scientific Data Systems, a computer maker that Xerox bought in 1969 for $950 million" (231). Perhaps because Ante is so invested in the career narrative of his hero, Georges Doriot, he keeps on comparing the kind of work he has pioneered with the later improvements of others:

> West coast venture firms will happily take credit for inventing many of the key attributes of the venture business. But that's not the entire story. Kleiner, Perkins, for example, is often credited with being the first venture firm to practice hands-on management, first to organize portfolio companies to create a sort of keiretsu (a set of companies with interlocking business relationships), and also first to implement corporate governance measures such as distributing audited quarterly and annual reports. In truth, ARD had pioneered and been using these practices for more than two decades before any other west coast firm. (232–233)

Yet, Ante admits that the incubation of firms "from scratch" as a way to nurture new and tentative talent was a much more common West Coast practice, so that the potential for success was watched over, step-by-step, from the very inception of an idea (234). Ante mentions the eventual success of Apple and Genentech as exemplars of what the West Coast ended up doing in relation to what the East Coast was doing. But the major changes in the venture capital business, as far as Ante is concerned, had more to do with the easing of regulations and the permission for pension funds to participate in venture capital investments. Instead of being bound by the 1974 "prudent man" rule of the Employment Retirement Income Security Act of the U.S. Labor Department that would not permit risky investments in venture firms, by 1979 a new rule allowed pension fund managers to consider the investment risk in venture firms to be part of a wider diversified portfolio that would allow taking such risks. This change in regulatory provision "opened the floodgates to venture capital." According to Ante, "in 1978, 23 venture funds managed about $500 million of capital. By 1983, there were 230 firms overseeing $11 billion. Almost one-third of that new money came from pension funds, up from 15 percent in 1978" (250).

As I have been arguing all along, the market for venture capital funds could not have grown as much and as quickly without government intervention. It is not as if government agencies themselves invested in venture firms, the way the Department of Defense funded many projects on university campuses and in the private sector. Rather, a combination of tax legislation that slashed capital gains taxes in 1978 from 49.5 percent to 28 percent, and eventually in the 1990s to 15 percent, plus a regulatory allowance for pension funds investment in risky venture firms brought about the financial bonanza of venture capital. Greed alone would not have sufficed. This greed had to become more benevolent, more socially and morally acceptable by the legal and political authorities, so as to be prominently displayed as a form of generous subsidy for budding new talent and creativity. It is fascinating to note that legislative and regulatory bodies follow the "prudent man" rule as a way to mitigate risk-benefit assessments or perhaps as a way to be able to stand up to the scrutiny of the "average citizens," however poorly such a category is defined. The market for venture firms might remain on the fringes of most financial and economic activity in the United States, but on another level it stands at the heart of what the capitalist model is all about: coming up with new ideas and products, taking risks, and enlarging the market itself. Entrepreneurship is how capitalism defines or characterizes its leaders and its hard-core adherents. Because of this capitalist spirit, many urban legends have sprouted over the years. Similar to the myth of the lone genius or the starving artist who lives alone in a quest for creativity and who is appreciated only posthumously, the myth of the heroic entrepreneur who is despondent while pursuing a dream and vindicated when riches are forthcoming makes up much of the financial and economic lore and culture of postcapitalist society.

But, as we see in the case of venture capital firms, firms whose leaders are innovators and risk-takers, who think outside the box, so to speak, who perceive a need and supply it to the greater benefit of the public at large, these individual heroes and heroines can succeed only with the help of other firms and investors, and that help in turn is financially supported (in the tax code) and legally protected (in terms of intellectual property rights). Unlike standard, large corporations that raise funds through the offering of (stock market traded) shares to the public or finance their expansion through their profits from ongoing sales, venture firms lure investors with the promise of future benefits. The categories of venture investors is commonly divided into three kinds: first, venture capitalists who have been traditionally institutional investors, such as pension funds, insurance companies, endowment funds, and foundations; second, what have become more recently known as angel investors who are wealthy individuals; and third, family and friends or self-financed endeavors. According to Anand Rajaraman, these three different categories of investors evaluate their investment strategies differently, not only because of the amounts involved in each case, but also because of the particular relationship each has to the venture firm and its founders. Yet, there are three major categories of evaluation that remain the same across the different assessment process: market, team, and technology. Obviously, in the case of your own investment in your ideas or the help you might get from family and friends, the requirements are a bit more lax: They all believe in you and want to help your fledgling company in a "bootstrap mode" until such a time when you could go to an angel investor or even a venture capital firm to pitch your idea. There is a hierarchy here: It is easier to convince yourself, your family, and your friends than a complete stranger who has no stake in your success aside from a monetary one.

Rajaraman suggests that angel investors are willing to accept an unproven market for your product, but both the team and angel must have some inclination or belief that the market potential is there, and that its existence could be proven to a venture capitalist. The team, as far as angels are concerned, must include someone the angel has known from a previous experience, either business-related or personal. The factor of personal trust is essential. Likewise, the technology must be in an area where the angel has some expertise or where he or she believes that it has a promise, given what is already known. Overall, the angel will be more involved in the process of completing a prototype or model that will then be pitched more rigorously and effectively to a venture capital firm. At this level, venture capital firms are looking for huge potential returns on their investments, so that the potential market need for the product must be enormous. One must remember that venture capital funds operate with an overall calculated risk model: They assume that only one in ten investments will be fruitful, so that this one success will not only be profitable by itself but will also repay all the other, failed investments. Some call it diversification, some call it risk management, and still others call it calculated gambling. You should remember that venture capitalists (more so than angels) refuse to play casino-like gambling games, because they know the house will win no matter what; instead, what might be understood as their speculations on what idea or project might beat the odds are expected to prevail and make profits. And finally, the way venture capitalists evaluate technology is more remote from the way angels do, because they lack the expertise in all the areas in which they invest. Because of this, they expect the technology to be a breakthrough and hence extremely valuable, or they see it as unique and therefore not easily replicated by competitors (what some call barriers to entry into that particular market) (Rajaraman 2008).

As we have seen historically, there are two main strategies used by venture investors to cash out on their investments, what is called an exit strategy: a buyout by a larger firm or an initial public offering. Truthfully, most ventures fail, and angels and venture capital firms alike lose all their investments: There is usually nothing left to sell or recoup, because most of the investment is spent on intangible assets, such as human capital and not on real estate acquisition or inventory. Most of the money goes into paying the salaries of the inventors or toward a prototype that might never operate properly or that no one might ever want to buy. In cases where a larger firm buys out the venture firm, the investors sell their shares and receive a multiple of their original investment. But in order to evaluate this return on investment properly, one needs to add the time factor: How long has it taken for this to happen? Let us assume an initial investment of $1 million made to start a company on January 1, 2000. And let us assume that on December 31, 2007, the company was bought for $2 million. On the face of it it seems a fantastic return, the doubling of the original investment. But, as economists will remind us, there is an opportunity cost that must be calculated: If the same $1 million were invested elsewhere, what would the return have been? It is this return on investment that must be compared to the actual return of 100 percent over seven years. Let us assume two different compounded annual rates of return, one at 5 percent, which would be equivalent to a government-backed certificate of deposit with almost no risk, and the other at 12 percent, which would be what "hard-money" lenders expect with collateral to cover the amount borrowed. In the first, safe case, the return after seven years would be $1,419,034, whereas in the second, riskier case, the return would be $2,316,047. The difference between the $2 million in the venture capital investment in these two becomes more complex once these two figures are added into one's calculations, not to mention the overall annual inflation rate that makes $1 today worth a little less next year, as its value continuously erodes. Incidentally, as we discussed in the second chapter, regarding the easy access to information and the growth of the knowledge industries, the figures used here were easily calculated through an Internet link without the need to consult experts in the field.

It is because of this that investments in venture capital firms are expected to have returns so much higher than can be expected elsewhere. Why risk 100 percent of one's investment with a risk factor of 90 percent, if instead one could get secured returns of anywhere between 5 and 12 percent annually? The upside must be so much greater to warrant such investments, unless, of course, we are dealing with family, friends, and angels whose main purpose in investing is benevolent support rather than a return on investment. Don Dodge, in his blog, provides a six-year analysis of venture investments and illustrates why such investments are actually not such a good idea. According to him, in 2001 venture capitalists invested $32.1 billion in 3,416 companies, whereas angels invested $30 billion in more than 50,000 companies (obviously the amount invested per company is much smaller for angels). He compares this total investment of $52 billion with returns of $16.8 billion in mergers and acquisitions by other firms and $3.5 billion in initial public offerings, for a total of $19.8 billion in the two exit strategies. If one were to calculate this return for this year (knowing full well that it takes 3–7 years for exit strategies to materialize) it would be about 32 percent. Not bad, but this number does not include the return of the investment itself, so that the actual total exit number should have been close to $72 billion to do well. If we were to follow his numbers (based on the Center for Venture Research) for the averages between 2001 and 2006, we would get a total of $145.4 billion invested by venture capitalists, $135.4 billion by angels, and exit strategies of $80.5 billion for the total of mergers and acquisitions during this period, and $28.4 billion of total initial public offerings. He concludes by saying that investments have averaged $40 billion per year, and exits have averaged $18 billion. In short, venture capital investment is not a great business to be in (Dodge 2007).

So, why be a venture capitalist or an angel? Why take such enormous risks with very little promise of a great return or any return at all? Chronic gamblers and speculators have a ready answer: It is an addiction they cannot kick. They love the thrill of the risks associated with uncertainty, in an almost self-destructive way. But what about rational investors, or investors who believe that they, and only they, can find the Black Swan, as Nassim Taleb, the intellectual maverick and practitioner of the trading floors, calls it: an event that is an outlier with extreme impact and that is poorly explained after its occurrence, namely, a unique and unexpected case that is so far outside the parameters of a normal statistical distribution of risk as modeled by a bell curve as to be unpredictable. If that is what you are after, he says, then you should reach for the very extreme situations where the potential upside is enormously large, instead of hedging your bets on the semirisky stakes that you believe you can beat. More specifically, Taleb suggests that one's investment strategy should be to put close to 90 percent of one's capital in very safe, low-rate earnings instruments, like Treasury Notes, and the other 10 percent in extremely speculative bets, "as leveraged as possible (like options), preferably venture capital-style portfolios," to which he adds that even venture capital funds do not make enough bets, but rather follow a narrative of investments that make sense to them. "If venture capital firms are profitable, it is not because of the stories they have in their heads, but because they are exposed to unplanned events" (Taleb 2007, 205). Taleb is worth listening to not only because of his brilliant analysis of some misguided usages of statistical and probabilistic tools, but because he has been a practitioner who lucratively bucked the trend of trying to guess the outcome of unpredictable events. He admits that the future cannot be predictable either in principle or in practice, and suggests that therefore one should refrain from pretending to be able to do so. Instead, one should acknowledge the inherent and fundamental uncertainty and unpredictability of the future, and prepare, as best one can, for unexpected events to occur (hence, to invest in wild cards, in Black Swans, so to speak) so that the loss is minimal, but the gain is potentially enormous.

I have to confess that I have been engaged in venture capitalist practices in the past fifteen years in a variety of roles. Each case provides a different model of what in fact happens outside the standard confines of the financial institutions that help grease the wheels of the marketplace. All of them might seem to be small and under-the-radar cases, but as the literature on the subject makes clear, they are becoming more and more the new standard of postcapitalism, a model of the marketplace that relies much more on personal relationships and the impartial spectator to govern good behavior rather that the detachment of the invisible hand.

In the first case, I raised about $1 million from family and friends to open a brewery, restaurant, and gallery in an old warehouse. In addition to putting up whatever funds I had, I had to plead for $50,000 without any clear idea how I would repay my investors. As one of my investors reminded me, I had no exit strategy. As time went by and no great profits were forthcoming (but we still had a good business model), I took out loans and repaid my investors, one by one, with a 20 percent rate of return after two years. This model worked because I ran the company and was personally involved in every facet of the business. Like other entrepreneurs in this situation, I did not compensate myself for my work (no salary and benefits) and considered my labor sweat equity, as some call it. After ten years I sold the business to a great chef. I financed the sale over ten years, so that the new owner basically was using me now as his angel to finance his business. It remains a mystery to this day how to assess the rate of return of the original venture: Should one include the annual compensation of the owner and all the benefits? Should one include the original investment minus the amount that was repaid with interest to all the other investors? Depending on which method of calculating one uses, the results will vary widely. This, of course, is different from a straightforward calculation an investor makes who does not operate the venture. One of the things missing from the literature on venture firms are the personal rewards that the founder enjoys along the way, from pride and emotional satisfaction to a salary and health and car insurance and all the other deductions permitted by law (and that cannot be used without having a company).

The second experience I want to briefly examine lies outside the framework of venture firms, because it has to do with a commercial real estate investment as opposed to computer technologies or other knowledge industries (but could be seen in this context as venture-like investment). A commercial broker approached me and my partners to purchase a 25,000-square-foot building on a major road in our city. The price was $1.2 million, and the annual rent would be $144,000. The seller was the renter, and the lease was for ten years. This seemed like a safe investment. What we did not know at the time was the financial condition of the seller/renter. We did not realize that they proposed this arrangement because they needed these funds to continue their operation. Sure enough, within one year the company was bankrupt, and we had an empty building to lease. To some extent we, the landlords, were the angels who gave money to the company for its future operations and expansion plans; in fact, we were their partners who received in return not shares of the company but its real estate, the building. Though adversarial in some sense, landlord and tenant are in fact partners who need to know each other, help each other through rough spots, and ensure a mutually beneficial financial arrangement that will last as long as possible. Ever since that experience some ten years ago, I have treated my tenants as partners and have on more than one occasion provided gradually increasing lease rates so as to indirectly finance their first steps, their new ventures. No, we did not receive shares in exchange, and no, we did not scrutinize their business plans (trust me, most of them would not know how to structure them anyway), but yes, we assumed a certain role of an angel, looking over them and nourishing them, giving them moral and psychological support rather than acting toward them as adversaries. What I have discovered as well is how lonely it is for a company with one to three employees to operate and to become successful. Indeed, the Internet allows you to open your own limited liability company on your own and fairly cheaply, but what then? Who is there to advise you, counsel you, and ensure you avoid some basic pitfalls and mistakes that others have made in your position?

The third set of cases I experienced more recently had to do with more traditional forms of angel investing in venture firms. In one case my partner personally knew a bright and promising graduate student who embarked on a new software/Internet venture with tools not commonly then in use. This personal relationship in addition to some personal expertise of one of the investors convinced us to invest. Seven years later we are still wondering what might happen to this company that has changed its name and location more than once, has been able to collect fees along the way, and was able to raise some venture capital funds from the likes of Sequoia. Is survival enough? By now, as you can imagine, our $150,000 is worth very little; we could have earned more than $105,000 at 10 percent annually had we invested it elsewhere. Is there an upside? How long should one wait? Our shares have been diluted with every new round of funding, so that these questions become theoretical, because we, as small shareholders can neither sell our shares to anyone else (they are not publicly traded) nor force the company to close (and take tax deductions for our losses); in fact, we are marooned on a desolate island with no rescue ship on the horizon.

Another case in the third category relates to someone who knew me from my restaurant and who succeeded in an earlier venture and was able to sell his company to a major software firm (all names and details are confidential). He came to us and showed us a presentation about a scrolling and digital sign, and despite his "mad scientist" look, his demeanor was sweet and convincing, and the technology he was promoting took advantage of current knowledge and pushed it to a new level of sophistication (in terms of connectivity and ease of end user control). My partner and I were so impressed by how his technology would empower end users to control their printing cycles (quick turnaround on design and proof instead of a lengthy period between initial design conception, design execution, and approval after proofing the design) and costs and the ways in which advertising campaigns could be easily launched in multiple locations that we gave him $100,000 within two weeks. A prototype was almost complete in China, and the software was being developed in India for this interactive information and logistics system. Time went by and within six months another $100,000 was needed. After putting up more money and seeing that no sales were imminent, and that the finished product was far from being completed, we realized that in addition to an "idiot-proof" technology that would be accessible and easily operational, a business model had to be developed, which demonstrated how everyone who participated (especially the end user who would be buying these signs for around $15,000 per unit) would make money. My partner and I became more and more involved, and the more involved we became, the more we realized that the business model was unworkable: We could not sell the signs, no matter how excited every potential buyer was at first. The Chinese model had to be redesigned from scratch, and the Indian software company quadrupled its budget for completion. Within fifteen months we closed the company and offered the prototype to anyone who was willing to store it. Were we duped? Were we willing gamblers? Or were we simply angels who gave some genius guy a chance to create and invent, to dream and imagine a better way to handle signage? The image of angels is the most appealing, with their white wings and benevolent disposition.

As I write, more opportunities knock on our door, perhaps because by now this door is recognized as an entryway to untold sums of money to be invested in venture firms. Perhaps by now we have learned from our mistakes, we have done enough deals, and we have lost enough money to appreciate the need to work harder on "due diligence," on getting to know better those we give money to, and have a better idea about all the potential pitfalls before they actually cost us money. Should we stay in the game? Have we become addicted to the thrill of the chase? Or, are we simple businesspeople who have some extra money to spare on these ventures, ventures whose potential for helping the human race might be more appealing than buying another fancy car or a big diamond ring?

Perhaps Nietzsche was right in his analysis of the will to power (1967), where he contends that one of the most intoxicating and powerful emotions humans have is that attending their quest to become more powerful than before and more powerful than others in their community. So, perhaps there is a psychological drive that manifests itself in some in their reach for public office (not to serve but to be admired as a celebrity of sorts) and in some in their incessant reach for business success. The financial rewards are merely an expression of success and not valuable in themselves, because rich people do not sit every day counting dollar bills; but they do like the narratives they tell about their journeys, about their encounters and their adventures. Instead of crossing the Sahara desert, they cross the hallway and write a check for someone who will work very hard to make an idea a financial reality. At best, they are themselves geniuses, but for the most part they are simply lucky, as Taleb correctly says. But luck, too, must be nurtured and have the opportunity to exist. It reminds me of the old Jewish joke about the guy who prays to God every day that he should win the lottery ticket. After weeks of prayer, a voice from the heavens comes down and asks: How can I help you win the lottery if you haven't bought a ticket yet? You see, we need to buy the ticket that allows us entry into lucky-land!

As we discuss in further detail the workings of venture capitalists and angels, as we examine what motivates people to invest and what motivates people to go on their own and try out new ideas and be creative, it becomes more apparent that we need to reexamine the structural settings of the marketplace, whether in its classical or modern configuration, as well as the emotional disposition of all involved. On the one hand, we have some, like Taleb, who claim that the marketplace works for none of the reasons given by the classical economists:

> So I disagree with the followers of Marx and of those of Adam Smith: the reason the free markets work is because they allow people to be lucky, thanks to aggressive trial and error, not by giving rewards or "incentives" for skill. The strategy is, then, to tinker as much as possible and try to collect as many Black Swan opportunities as you can. (Taleb 2007, xxi)

This means that it is about market conditions, as we have argued all along, that allow us all to "tinker" or to get "lucky" as we go about our business. In this sense, then, Taleb inadvertently does agree with Smith, because according to his model the opportunities are always there for "trial and error," for being free to make choices not all of which will result in a profitable way. But the model must be propped up by a huge legal scaffolding, as I have said, so that when you fall you only get hurt (as opposed to dying), and you get another opportunity to try again (using bankruptcy laws, for example, or borrowing more money from alternative sources).

On the other hand, we have those who wish to revisit Adam Smith's treatise on human sentiments so as to better understand his later writings on the workings of the marketplace. We shall return to this theme in the fourth chapter, where we will examine from different perspectives the psychological underpinnings that foster the kind of behavior most useful for the markets. But, as has become evident already at this juncture, there is a fine line that investors cross when they give their hard-earned money to venture firms, to individuals who have great ideas and inventions that have never been tried before. This line has become gray, as we see in the case of venture capital, when angels and family and friends support someone they know without a great deal of expectation that they will ever see their investment back, let alone make a profit from it. Is this kind of investment really still within the realm of greed? Or has it been transformed to some sort of philanthropy, one that is sanctioned by the tax code for tax write-offs? These questions, which I leave open for the time being, recur when we examine global markets in the next section.

But before we move on, we should note that some, like Nico Stehr (2008), suggest that the knowledge industries we have discussed so far and their effect on the accumulation of wealth have allowed consumers in the affluence of modern capitalism to pay more attention to moral features of their behavior and choices, and because of this the appearance of "angels," for example, or the interest in foreign aid make perfect sense. Moreover, modes of moral conduct eventually are "inscribed" in products so that the "moral content of commodities" is becoming more transparent in the marketplace (Stehr 2008, ix). The social and moral evolution of markets, then, is a process that can be found in affluent capitalist societies or in what

I have called postcapitalist societies. This is less a governmental directive and more a personal choice many intelligent and moral people have been making, and because of this, in a Smithian manner, a process of enhanced morality comes about.

As we saw in the first chapter, in the case of developmental economics, the line between profitable investment in underdeveloped countries and pure humanitarian aid for them remains blurred. The mission statements of organizations, such as the World Bank, are unclear in regard to donor nations and those they are supposed to help: Are they giving loans? Are they expecting the loans to be repaid or forgiven? Do they expect to make a competitive rate-of-return on these loans or investments? And, of course, when the global economy is at stake, one could argue that every loan by a developed country is self-serving when given to an underdeveloped country, because it allows the donor to sell more products in an ever-expanding market. Even when health issues come up within the context of foreign aid, it is always questionable whether the aid will ultimately (and indirectly) benefit those who provide the funds (and would ensure more consumers worldwide as well as lower health care costs at home, etc.) or is meant to be altruistically offered. As we shall see in the next chapter, altruism need not be in opposition to self-interest, so that self-interested behavior could lead, if reciprocated, to an overall altruistic behavior in the long run.

The Age of Globalization: From Resources to Ecological Hazards

Before we move on to more esoteric areas of globalization, let us remain close to the financial markets we discussed in the previous section. In assessing the effects of globalization on the financial markets, where concentration of wealth and credit lies in a few centers around the world reminiscent of the hub-and-spoke structure that airlines adopted a couple of decades ago, Taleb, among others, warns that the perceived stability of the global economy, the way one weak area can be shored up by others, could lead to unfortunate, and even hazardous results:

> We have never lived before under the threat of global collapse. Financial institutions have been merging into a smaller number of very large banks. Almost all banks are now interrelated. So the financial ecology is swelling into gigantic, incestuous, bureaucratic banks … when one falls, they all fall. The increased concentration among banks seems to have the effect of making financial crises less likely, but when they happen they are more global in

> scale and hit us very hard. We have moved from a diversified ecology of small banks, with varied lending policies, to a more homogeneous framework of firms that all resemble one another. True, we now have fewer failures, but when they occur … I shiver at the thought. I rephrase here: we will have fewer but more severe crises. The rarer the event, the less we know about its odds. It means that we know less and less about the possibility of a crisis. (Taleb 2007, 225–226)

So, the Smithian model of the marketplace in which small participants can never individually control the prices goes only so far. As time goes by, there is a tendency to merge and to become bigger and bigger players in the market, thus ensuring lower prices because of economies of scale where efficiency is paramount in reducing costs. But such concentration, regardless of the potential for monopoly behavior that exploits market positions and increases prices regardless of costs (because there is less or no competition from others who have been eliminated—bought or put out of business—from the market), is worrisome, according to Taleb, because it creates a domino effect: When one falls, the others will, too. As mentioned in Chapter 1, in the example of mortgage lending in the United States, it becomes clear that all banks and mortgage institutions were following each other in extending too much credit to unqualified customers. The "ecology," as Taleb calls it, overlooked the traditional regional differentiation where each bank had its own policies and guidelines that were commensurate with local economic conditions and real estate prices. Financial diversity insulated the whole system from collapse, similar to the way natural selection makes sense only because of genetic diversity. The survival of the financial markets was predicated on this diversity, so that when one bank failed or the policies of the other backfired, the rest of the financial market learned from their mistakes and avoided the failed practices or replaced them with better ones. It is here, once again, that Taleb warns against Black Swans occurring in such a way that the entire financial market might be in jeopardy, so much so that government intervention, as we are seeing happening in 2008 in the United States is sanctioned by all stripes of the political and ideological spectrum. The strengths and weaknesses of marketplace capitalism, classical or contemporary, are magnified when we shift our gaze from the national to the international domain, as if the canvas were stretched so much that every dot and pixel, every blemish or imperfection, can be more readily observed even by the naked eye of an interested or impartial (in Smith's sense) spectator.

Whereas Taleb mentions the financial market, Joseph Stiglitz, a Nobel Prize winner in economics, former member of the Council of

Economic Advisers in the Clinton Administration, and the chief economist and vice president of the World Bank, has a broader perception of the dangers of globalization, especially when trade is considered. According to him:

> I believe that globalization—the removal of barriers to free trade and the closer integration of national economies—can be a force for good and that it has the *potential* to enrich everyone in the world, particularly the poor. But I also believe that if this is to be the case, the way globalization has been managed, including the international trade agreements that have played such a large role in removing those barriers and the policies that have been imposed on developing countries in the process of globalization, need to be radically rethought. (2003, ix–x)

My contention that markets alone cannot achieve the kind of potential success and well-being imagined by their creators and participants is echoed in Stiglitz's critique of the International Monetary Fund (IMF), for example. As far as he is concerned, "The IMF's policies, in part based on the outworn presumption that markets, by themselves, lead to efficient outcomes, failed to allow for desirable government interventions in the market, measures which can guide economic growth and make *everyone* better off" (xii). For Stiglitz it is not theory versus practice, namely, some ideological commitment that is poorly implemented under a particular set of conditions, but rather that the ideas themselves have not been discussed in sufficient depth so as to highlight their own inner workings or nuances. Even in our own experience in the nineteenth century, he claims, the United States was engaged in "redistribution policies" and "land grants" that ensured, after the Civil War, "a minimum opportunity for all Americans" (21). Yes, capitalism is well suited for developing efficient markets, but in most cases their efficiency is first and foremost understood in the aggregate and allow for some losses and suffering at the margins. These margins might be individuals who suffer "social costs" when privatization occurs domestically (Stiglitz, 56–57), or they might be whole nations when discussing the global economy; in either case, agricultural productivity could bring about starvation (even when the total agricultural production for the world is steadily increasing). In these cases, Stiglitz doesn't just advocate the "importance of open access to *information*" (xx), as we have done when relating developmental strategies (Chapter 1) to the knowledge industry and its dissemination (Chapter 2), but rather a much broader concept of fairness and justice as it applies across national borders. He uses a wonderful image to explain his concern:

> Small developing countries are like small boats. Rapid capital market liberalization, in the manner pushed by the IMF, amounted to setting them off on a voyage on a rough sea, before the holes in their hulls have been repaired, before the captain has received training, before life vests have been put on board. Even in the best of circumstances, there was a high likelihood that they would be overturned when they were hit broadside by a big wave. (17)

This image resonates with those countries that have been convinced to privatize all their industries, including the financial markets. Privatization and deregulation alone cannot bring about growth and improved standards of living, because "the poor countries have no safety net to soften the impact of recession." Likewise, interest rates have not necessarily been reduced across the economy, so that some segments would suffer the additional cost of higher interest rates on their loans (65). His most fascinating example of the shift from communism to capitalism insofar as privatization and deregulation are concerned is the case of the former Soviet Union (now Russia) where the introduction of market mechanisms alone brought about disastrous results (monopolies, great disparity between the rich and poor, underground crime organizations, inflation, and general lawlessness and a return to veiled dictatorship) (6ff.). You see, Stiglitz keeps reminding us, Smith's invisible hand and the conditions of making marketplaces efficient were correct but "highly restrictive" in scope of application, namely, they do not apply to developing countries or countries in transition where "there are desirable government interventions" (73; see also 219). He echoes here what is almost common knowledge: "[I]f information were perfect, we now know, there would be little role for financial markets—and little role for financial market regulation. If competition were automatically perfect, there would be no role for antitrust authorities" (74; see also 84). In sum, the market functions well if and only if there is social cohesion, political freedom, and the rule of law, and moral commitment to fairness and justice, benevolence and responsibility.

Stiglitz's insistence on the development of institutions, both domestic and international, in order to bring about the growth and well-being promised by capitalism and globalization can be understood methodologically as well. He is concerned with gradual changes and tinkering with existing institutions and government regulation rather than with dramatic changes of the *shock therapists* as he calls them (some years before Klein, mentioned in Chapter 1, coined the term). For Stiglitz there can be no shortcuts in the transformation of the global economy, and a "sequencing" process of reasonably managed transition is essential for the least harmful results (if not for the quickest), as he documents in case after case of countries that were not as deliberate as they needed to be (139–142). In his recommendations, Stiglitz comes closer than any other economist to Popper's piecemeal engineering as a method for reforming any given conditions without the potential harm that can befall any revolutionary change, the cost of whose implementations are extremely high, because minor mistakes result in great losses (see Sassower 2006). It is interesting to note at this juncture the congruence between the recommendation Popper would have made in relation to our domestic policies (as noted at the end of the first chapter) and the kind of recommendation Stiglitz is making for the global economy.

Partially because "the interplay between politics and economics is complex" (Stiglitz 2003, 184), and partially because he is worried about Friedman-like shock waves (already mentioned in the first chapter when quoting Klein's conspiracy theory) that "paid too little attention to social and distributional consequences of policy" (167), Stiglitz adopts a Popperian stance when it comes to methods of implementation: Use caution, be incremental in your implementation, consider exogenous variables as if they were part of your equation (endogenous variables) so as to minimize friction and local resistance, and so on. Citing Keynes and some theoretical advances in economic theory, he continues to argue why collective action is necessary (196–197). It is noteworthy that from Stiglitz's perspective the system of capitalism today is "at a crossroads as it was during the Great Depression. In the 1930s, capitalism was saved by Keynes, who thought of policies to create jobs and rescue those suffering from the collapse of the global economy. Now, millions of people around the world are waiting to see whether globalization can be reformed so that its benefits can be more widely shared" (249–250). In the fifth chapter, I will return to this notion of collective action and responsibility as the political, social, and moral way in which we must think about the economy.

One might ask, what are the counterarguments? What would one say if unconvinced by the need for shared international institutions and rules? Of course, go it alone attitudes still abound around the world, from desperately underdeveloped nations, such as Zimbabwe (whose poverty is painfully apparent on the global scene), to recently enriched nations, such as Russia, whose natural wealth provides a safeguard against any international sanctions in regard to human rights violations. From the endemically poor to the recently rich, individual nations can ignore the global economy and the international institutions that guide it only so long. At some point, and this point is different for each nation, according to its domestic circumstances, every nation must buy or sell goods and services to sustain its own economy, be they energy sources or communication technologies. So, the arguments against the need for a global perspective end up sounding like the arguments of paranoid separatists who think that their survival is safer outside the community, because they cannot trust the government. But as we have seen all along, the government really stands for and is representative of the sovereign people (at least in theory, even when violated in some instances), and provides for public goods and services no individual can or will pay for alone (bridges and roads, police officers and firefighters, military force and aviation coordination). It is within this context, then, that we move back and forth from the domestic context to the international, from national public goods to global ones.

In a book devoted to the incentives for the provision of global public goods, Scott Barrett, a former advisor to the International Task Force on Global Public Goods and the director of International Policy at the School of Advanced International Studies at Johns Hopkins University, explains that global public goods should be universally desired:

> Global public goods offer benefits that are both non-excludable and non-rival. Once provided, no country can be prevented from enjoying a global public good; nor can any country's enjoyment of the good impinge on the consumption opportunities of other countries. When provision succeeds, global public goods make people everywhere better off. (2007, 1)

Barrett is quick to point out that some of these global public goods do not require resources, but instead simple coordination among all nations, such as determining time. We all would agree that this simple factor is necessary for international communication, travel, and trade, and it costs nothing. Yet, it is a great symbol of what we define as globalization: We know who does what and when around the globe (9). Perhaps it is the fate of those who participate in international institutions and global task forces that they end up advocating similar objectives. Like Stiglitz before him, Barrett insists that global "human progress requires not only improved international institutions, necessary to facilitate the supply of global public goods, but also effective domestic institutions, necessary to ensure that the benefits of this supply are fully exploited and widely shared" (11). So, the one level requires the coordination with the other, whether we proceed through taxation (more common on the domestic level) or regulation (common domestically but more likely to be enforceable on the international level). Instead of pointing out all the ways in which international institutions were ineffective (Stiglitz 2003) or malicious (Klein 2007), Barrett recognizes the limitations of any "supranational authority." So, he suggests, "lacking any supranational authority capable of compelling states to behave differently [when they pollute, for example], the only alternative available is *international cooperation*—a kind of organized volunteerism" (Barrett 2007, 19). He mentions in this context the GPS system we discussed in the previous chapter and argues that "satellite navigation is quickly becoming an essential component of the global infrastructure" (31). In short order, Barrett plays into the following arguments we have already discussed: First, capitalist market forces alone cannot establish the kind of global efficiency we would like to see; second, though the domestic level of commitment to public goods should be mirrored on the international level, it cannot be enforced by some supranational authority and therefore needs volunteered cooperation; and third, the facts of globalization, from the determination of time and the GPS to pollution and sustainable food and energy supplies, necessitate an attitude of collaboration that is morally grounded even if not politically explicit.

Among the luminaries who have had foreign aid experience, who have undertaken high-profile assignments around the world, and especially during the 1990s with the transformation of the Soviet Union and its satellite eastern European countries, is Jeffrey Sachs. In his latest book, *Common Wealth* (2008), he incorporates a set of descriptions about the age of globalization with a set of recommendations that would ensure the survival of our planet. Awkwardly absent is any mention of his experiences in Russia and the failures of its transformation into a capitalist market. But perhaps his experiences there and in his role as a special advisor to United Nations Secretary-General Ban Ki-moon on the Millennium Development Goals and as the director of the Earth Institute at Columbia University have led him to open this book with some strong assertions about cooperation and the future behavior of international markets:

> Global cooperation will have to come to the fore. The very idea of competing nation-states that scramble for markets, power, and resources will become passé . . . humanity shares a *common fate on a crowded planet*. . . . Our challenge is not so much to invent global cooperation as it is to rejuvenate, modernize, and extend it. . . . A new approach to global problem solving based on cooperation among nations and the dynamism and creativity of the nongovernmental sector. (3–7)

In short, Sachs's advocacy for a robust global market is not a replacement of market capitalism, but an extension of its salient features, such as efficiency and freedom, one that emphasizes social justice and respect for the environment. In order for Sachs's vision to become operational, and he, more than many other advisors, is keenly aware of this point, is what he terms "the paradox of a unified global economy and divided global society" (7). "The main problem," he continues, "is not the absence of reasonable and low-cost solutions, but the difficulty of implementing global cooperation to put those solutions in place" (12). Just like Stiglitz before him, Sachs is speaking the language of cooperation as a precondition for improving the global situation and solving all its potential growth issues, from population and income to urbanization and productivity.

Sachs does not remain in the voluntary cooperation mode of Barrett, but moves closer to Stiglitz's ideas of intervention: "public policy can intervene to align private interests with sustainable development and specifically, with the interests of later generations unrepresented in the market today" (40). This, to me, is an important insight we have not mentioned before in regard to the shortfall of markets, namely, that they are predominantly concerned with and focused on present-day transactions (and prices and efficiencies) with complete disregard to their impact on future markets (and prices and efficiencies). Though competition allows for certain benefits today, will they be outweighed by the price they exact on the environment, for example, or on this or that resource? So, as Sachs outlines all the great benefits of foreign aid (46ff.), he couches his comments in the language of developmental economics where present concerns lead to solutions that should be long-term in scope and affect future generations (the provision of infrastructure or the vaccination of children). We might not be able to perceive the achievements today, we might not be able to measure success in the capitalist quarterly fashion, but we could appreciate slow and continuous improvements that can transform a country from being "underdeveloped" to becoming "developed." Incidentally, this is the kind of language and mind-set already found in the 1970s, when economists, such as Sudhir Sen (1974), have argued that foreign aid alone (in the form of food supplies) would never be effective; instead, they recommended the development of indigenous food production in developing countries, so that in the future they would become more self-sufficient and have a diverse agricultural base to weather population growth. Though most of my citations here are from contemporary economists, it should be noted that even in the 1970s there was a great deal of recognition of two interrelated issues: first, that cooperation between the rich and poor nations was essential to solve what was becoming a global problem, and second, that what needed to be transferred was not commodities, such as grain, but knowledge and expertise, information technologies and scientific research tools to empower the local communities and ensure their eventual self-sufficiency.

Sachs is among the few who contextualizes his own analysis historically and reminds us of the reverend Thomas Malthus and his dire predictions in 1798. Though we are aware by now that Malthus's own predictions about the future disasters that were to afflict us all (as population growth was geometrical and foodstuffs grew only arithmetically) were morally motivated, his power of persuasion and his assured voice at the time were loud enough to drown out most criticism. The specter of Malthus's predictions has overshadowed and informed much of the discussion about the global economy, the dangers of population growth in underdeveloped countries, and the problems associated with feeding the growing world population as we decimate our natural resources, polluting some, exploiting others, and ignoring any renewal or sustainable options. But Sachs comes up with an upbeat summary of why optimism about the global future is reasonable:

> The first [point] is the likelihood that the global population will stabilize in this century. Malthus could certainly not anticipate the rise of modern contraception and the ready uptake of contraception in most societies in the world. The second cause for optimism is that technological advancement continues to be rapid and is probably accelerating. The revolutions in computing, data management, ecological science, spatial modeling, materials science (including nanotechnology), and other areas of knowledge all suggest that technologies, at least potentially, can rescue us and the planet yet again. The science and technology can be harnessed. The harder question is whether we will be well enough organized, and cooperative enough on a global scale, to seize the chance. (2008, 73–74)

The issue, then, is not Malthus's specter, but rather our own ability to organize and cooperate, to harness our emerging technologies and implement them globally, all the while appreciating the essential need to spread the knowledge we have among all nations, as all nations are slowly moving toward the designation of "technology-based" economies (211). As we saw in the second chapter, knowledge industries are crucial for global sustainability and require a broad political and moral foundation that could make use of market mechanisms as long as they enhance rather than retard improvement and success.

Perhaps developmental economists could not have helped undermine or transform the neoclassical model of market capitalism; perhaps institutional economists were such a minority among their professional counterparts who thought econometric models would solve all human problems and therefore could effect no change in thinking about the economy; so, perhaps it is left to what might now be called "global economists" or "economists with a global outlook" to once and for all abandon the market model and provide a more useful one. This is what I gather from the books on the global economy, and we should marvel at this shift in mind-set, because it comes from traditional quarters of the profession, from those mavericks who were supposed to convert any economic system out there into the capitalist faith; but perhaps those mavericks went native, so to speak, and have themselves been converted to a milder form of economic thinking, where cooperation rather competition is the ground rule by which we all must operate. In Sachs's words:

> According to the free-market textbooks, countries should simply open their markets, enforce property rights, and ensure macroeconomic stability. Economic development will follow. No place in the world, including the free-market United States, actually pursues development policy in this manner, and for very good reason. At every stage of development, and for every sector of development, the public sector and the private sector have mutually supportive roles. Public sector capital—roads, clinics, schools, ports, nature reserves, utilities, and much more—are essential if private capital in the form of factories, machinery, and skilled labor are to be productive. Economic development is a complex interplay of market forces and public-sector plans and investments. (219)

Sachs moves from this realization about the need for an interface between the private and public sectors to some of the standard characterization of nation-states. For him, there are three kinds of capitalist societies, and as he lists them, he also summarizes in table after table their relative advantages. The first group is "the social-welfare states of Denmark, Finland, Norway and Sweden. All of these countries maintain very extensive systems of social insurance and very high levels of social expenditure as a share of gross national product." In the second group he includes most of the western European nations, and he labels this group "mixed economies," because they fall in between the first group of social-welfare nations and the free-market ones. The third group of "(relatively) free-market" countries include the United States and the United Kingdom, as well as Canada, Australia, New Zealand, and Ireland (258–262). As this relates to the global economy, Sachs suggests that free-market countries, like the United States, because they pursue policies that invest little in social insurance "foster a society of fear and vulnerability that lacks the readiness to contribute more to global cooperation" (263). This is a brilliant point, and one we have traced back to Adam Smith's *Theory of Moral Sentiments*: An overall sense of benevolence would enhance even selfish market behavior that would at the same time respect the needs and aspirations of others. Free-market policies do in fact *foster* certain emotional responses and in doing so make us feel even more "vulnerable," and therefore less inclined to see the big picture, to look around us and help those who are in need.

In the previous section we discussed venture capital and angels, the ways in which creativity and innovations are fostered within and outside the marketplace. Sachs suggests that we consider "social venture capital." For him, this means "financing for early-stage problem solving," as a way for foundations to undertake investments and implementations of technologies and procedures that can help solve large-scale problems, such as disease (302ff.). This might be called "business philanthropy," as in the case of foundation giants, such as the Gates Foundation and the Global Fund, and is characterized at its best when it is "part of a holistic development effort, where many partners—including philanthropists, donor agencies, and private business—come together to make their mark" (322). Of course, such efforts, especially when bringing together many funds and agencies, and especially when dealing with what Stiglitz, Barrett, and Sachs have termed *global public goods,* are bound to have the same problems associated with the free riding problem. As we shall see in the next chapter, the free riding problem, where not everyone shares equally or equitably in the needed investment (in resources, time, and effort), yet enjoys the fruits nonetheless, is pervasive at the global level. Whereas Smith envisioned an impartial spectator, who would keep us all in check and ensure our benevolence throughout our behavior (in and outside the marketplace), we might not have this kind of power or authority to keep us all honest and possessed of profound integrity.

Perhaps we should take stock here before moving to the next section. It seemed from the previous chapter that the knowledge industries were unlimited in scope and perpetual development, that they could conquer all of our technoscientific problems with added knowledge, with greater accuracy, and with a comprehensive reach. As this chapter has shown so far, knowledge products and processes might be produced domestically, in university-like research networks and venture capital start-ups, but their distribution and consumption are global. Because of this, they must follow a particular model of cooperation in order to be effective. It seems, too, that unlike the abundance of knowledge production—we can reach higher and broader horizons of knowledge—there is a basic scarcity of natural resources in the global environment. Malthus's model stands at one extreme of the spectrum of views and models regarding our global future, whereas R. Buckminster Fuller, for example, with his *Earth, Inc.*

of 1973, stands at its center. Whether we follow the Gaia hypothesis or any other version of the ecology-minded community, we are bound to find very little on the other end of the spectrum, namely, a model that stipulates environmental abundance of resources and potential. I do not want to push such a model, for it would, most likely, be associated with those who deny climate warming or those who believe that humans have no effect on the environment.

Yet, we might be more likely to be motivated by an expanding universe of opportunities, where our knowledge industries are geared to finding solutions to our present and future problems, ways by which we can more efficiently conserve energy, reuse our products, and renew whatever resources are most crucial for our survival and growth. Just as developmental economists and global economists have found ways to promote an optimistic view of what can be done, I wish to maintain this spirit as a way to ensure that we strive to succeed as a community of nations rather than to be driven by fear and greed and to close our minds to what can be done. Yes, there are many obstacles, such as market capitalism and competition, greed and fear; but there are also opportunities to cooperate and ensure that the benevolence shown to some would be extended to all of us in a way that puts a certain moral pressure on us to improve our own behavior and to see how it is integrated into the global community. It is with this in mind that I wish to tackle intellectual property issues, which might seem to some another obstacle on the way to provide open access to information and to technoscience that can benefit us all. The idea that your benefit is mine as well will be discussed in the last chapter. But first I shall reconsider our capitalist-driven views on intellectual property and the ways in which it has been considered a protected commodity.

Postmodern Recycling of Data and Insights: Intellectual Property Revisited

Just as global developmental concerns helped us focus on domestic market capitalism and the need for cooperation in relation to information and the knowledge industries (in the first two chapters), so our focus on globalism in the previous section can help shed some light on the conditions that promote or retard the formation of creative and innovative start-up companies. As we have seen with Stiglitz's concern with global cooperation, the issues relate directly to sharing information and knowledge, expertise and ideas. In his words:

> One of the areas that was of particular concern at Doha [the 2001 round of trade negotiations] was intellectual property rights. These are important, if innovators are to have incentives to innovate—though much of the most crucial research, such as that in basic science and mathematics, is not patentable. No one denies the importance of intellectual property rights. But these rights need to balance out the rights and interests of producers with those of users—not only users in developing countries but researchers in developed countries. (Stiglitz 2003, 245)

When Stiglitz claims that "no one denies the importance of property rights," he might be overstating his case. There are contentions against intellectual property rights, because, for some, the very notion of thinking about ideas in terms of property rights might be erroneous. This is an important contention not only for the cases of venture firms we have discussed, but also in a more fundamental way that both Smith and Machlup have suggested, as a public good that is shared by a culture on behalf of all its citizens. This notion, of course, can be extended to the international community. But when he appreciates the need for balancing the right of producers with those of users he is on firmer grounds, as we shall see later. (For more on this issue of balance, see Lessig 2004.)

Traditionally, there have been two ways in which arguments about knowledge produced in certain communities (academic, artistic, scientific, to name a few) have been framed: One has claimed that "the transmission of knowledge from one generation to the other must be predominantly tacit" (Michael Polanyi 1966, 61), and the other has claimed that all knowledge is a cooperative process between inventors and creators and their audience (Collingwood 1958, 324). According to the first framework, knowledge in fact becomes tacit, that is, pervasive and implicit in our culture, so much so that to suggest an individual or a set of individuals as "owning" it would seem ludicrous. Certain things we happen to know without any attributions, and they form the public domain of knowledge from which every person is free to borrow and enjoy. According to the second framework, and though its author focuses primarily on artists, there would be no reason ever to set barriers among artists based on the protection of their creations:

> Let every artist make a vow, and here among artists I include all such as write or speak on scientific or learned subjects, never to prosecute or lend himself to a prosecution under the law of copyright.... Well, I am only proposing that modern artists should treat each other as Greek dramatists or Renaissance painters or Elizabethan poets did. If any one thinks that the law of copyright has fostered better art than those barbarous times could

> produce, I will not try to convert him. (Collingwood, 326) (This sentiment is echoed in Boldrin and Levine 2008, 30–31.)

Because, according to Collingwood, "art is not contemplation, it is action" (332), and because there is a relationship of a "collaborative unit" between the artists, performers, and the audience (329), it makes sense that the artist ends up being a "spokesman of his community" (336), expressing the community's ideas and fears, its secrets and tacit knowledge. Polanyi and Collingwood end up agreeing that whatever knowledge is transmitted or communicated at any given point is larger and deeper than any individual expression might represent at any given moment. It is collaborative and communal, part of the culture into which we are born and in which we live our lives. It is in this sense, then, that Collingwood speaks so openly and vehemently against the restrictions posed by copyright laws. Copying each other and improving on each other's contributions are commonplace and should not be recognized individually.

Martha Buskirk is also mostly focused on artists in her discussion of copyrights, trademarks, and branding. But her framing, the third kind considered here, is in fact a variant of or an extension of the first two: "in the postmodern age, the very notion of originality and authenticity of the single creator or artist I challenged and undermined systematically so that every move is a commentary on previous images and statements, an appropriation and subversion of what has preceded this moment in history" (1992, 100ff.). Moreover, the very claims of originality are suspect, because, as Jean François Lyotard so aptly reminds us, all we can do is to use the materials already given to us to reinterpret and recreate, "inventing new moves" in a preordained game (Lyotard 1984, 40). Under these circumstances of posmodernity, one must conclude that the very notion of protecting one's ideas or intellect is suspect, if not downright silly. But perhaps this conclusion is too hasty, and we must take seriously Stiglitz's expression of the standard and pervasive view that intellectual property rights provide the essential incentives for artists and scientists alike to invent and create. This is where economic and political thinking meet and eventually set up laws by which society abides.

The United States stands out in fabricating an intricate web of economic and political thinking. As numerous writers on the subject remind us, it was Noah Webster, among others, who prompted the Connecticut legislature in 1783 to establish copyright laws, some of which were adopted by other of the original states (Buskirk 1992, 88). Eventually the first Article (Section 8) of the U.S. Constitution set a federal law regarding copyrights:

> Congress shall have Power . . . to Promote the Progress of Science and Useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

This power was exercised in 1790 when the first statutes were enacted by Congress. So, the American model for copyright is based on a constitutional mandate to protect authors and inventors as if their creations are their property, at least, as was revised in 1978 for their life plus fifty years. This protection, as we are reminded, is different from the original intent of such a protection in the sixteenth century when the British Crown licensed only certain publishers to be allowed to publish books. The latter was a radical move, albeit one that ensured the power of censorship in the hands of the Crown, and that allowed the private sector to benefit from the exclusive right to publish books. The authors, incidentally, were really out of the picture once they sold their manuscripts to the publishers (Buskirk 1992, 84–88; see also Boldrin and Levine 2008, 42–49, on the shifts in monopoly power from the Crown to Parliament). But as the rights of authorship became more pronounced in both copyrights and patents, the legal protection, of what we now call intellectual property, took on a specific economic dimension in the marketplace, providing financial rewards for those who write or invent. As the economists Michele Boldrin and David Levine suggest "copyright law seems less threatening than patents. Although the length of copyright is excessively long, the scope of coverage historically has been narrow: in principle, only the expression of ideas is covered, not the ideas themselves. Again, in principle, this is less harmful to the downstream production of new ideas and the expression of ideas than is the much broader protection offered by patents" (97). The exception to the exclusivity of one's rights has been "fair use," which balances the social benefits from quoting or appropriating parts of an intellectual property with the presumed rights of the originator. The legal terminology associated with such use is restrictive insofar as it allows for critical quotation, news reporting, teaching, scholarship, or research. When talking about trademarks, the issues are less related to direct protection of an invention than the protection of the public from confusion about products and the owner of the trademark about market share (see also Miller and Davis 1990).

Before we dissect the notion of intellectual property and whether such a thing does exist in the same ontological and practical domains as a piece of land or a house, Yochai Benkler, a legal scholar at Harvard, reminds us that "property, together with contract, is the core institutional component of markets, and a core institutional element of liberal societies" (2006, 23–24).

Our basic expectations regarding property and its current value and future use allows for market transactions to take place. But the rights associated with property also contain an element of constraint, so that one is restricted with regard to the use of the property so sold or purchased. This institutional market mechanism, argues Benkler, fits well the industrial model where specific materials and products exchanged hands, and where investments in infrastructure and content required a great deal of capital. Under such circumstances, the protection of those of one's eventual products that made it to the marketplace would make sense. Benkler suggests that the neo-classical capitalist model of the Industrial Revolution was applicable, until recently, to communications technologies. The market relations between producers and consumers was such that a concentrated group of producers of television, radio, cable, and satellite firms controlled the supply and could extract monopoly-like prices from relatively passive and powerless consumers (29ff.). What fascinates Benkler in his semi-Marxist analysis is the fact that the Internet is "the first modern communication medium that expands its reach by decentralizing the capital structure of production and distribution of information, culture, and knowledge" (30). For him, this is a shift from an "industrial information economy" to a "networked information economy," a shift that reduces any barriers to enter this communication market and therefore encourages social and personal interaction and cooperation outside the marketplace (105–106). He cites Google and Wikipedia as great examples of open-source and nonexclusionary practices that bring the contributions of millions of people around the world and defies, in a sense, any and all the presuppositions that underlie our notion of a capitalist marketplace. Under these changing material conditions, when roughly one billion people around the world have access to the Internet (55), what value does legislation concerning intellectual property have? The quantitative transformation of the global economy brings about (in a Hegelian sense of dialectical transformation) a qualitative change.

According to Benkler, the main upshot of the changed economy is that our intuitions regarding the efficiency of the marketplace and its centrality in organizing our economy may be misconstrued:

> Instead, we find the majority of businesses in most sectors reporting that they do not rely on intellectual property as a primary mechanism for appropriating the benefits of their research and development investments. In addition, we find mainstream economists believing that there is substantial role for government funding; that nonprofit research can be more efficient than for-profit research; and, otherwise, that nonproprietary production can play an important role in our information production system. (41)

As far as Benkler is concerned, the old models of exclusive rights, held either by the individual inventor or by larger firms that invent or buy inventions in order to profit from them "represent only a fraction of our information production system." Instead, even if one were to stay within the marketplace model, the patents and copyrights that are associated with investments in research and development remain only a starting point for financial remuneration. Professionals who publish their research benefit more from their reputations and subsequent services than from protecting their intellectual rights. This is true also for the software industry where the testing and application of original code, for example, as well as customizing and redesigning are paramount (see also Boldrin and Levine 2008, ch. 2 and 61–62). IBM, with more than thirty thousand patents is a good example of an organization whose revenues from intellectual property transfer, licensing, and royalties keep shrinking, while its revenues from Linux-related services keep increasing (Benkler 2006, 44–48). We should mention here that though Linux is an open-source system, many firms, including IBM, have found ways to license specific patents related to it and thus garner some revenues. Similarly, as Boldrin and Levine remind us, many corporations use "patent pools" to collaborate with each other and reduce their individual investments in research and development, with cross-licensing agreements and at times with the creation of industry-wide standards for processing information (63–64).

In case we thought that the transformation into the networked information economy is a novel idea, Benkler admits that it is indeed the foundation of science as we know it, and that, as Stiglitz admitted as well, it is fundamental research that cannot be patented or copyrighted:

> This kind of information production by agents operating on a decentralized nonproprietary model is not completely new. Science is built by many people contributing incrementally—not operating on market signals, not being handed their research marching orders by a boss—independently deciding what to research, bringing their collaborations together, and creating science. What we see in the networked information economy is a dramatic increase in the importance and the centrality of information produced this way. (Benkler 2006, 63)

Instead of using copyright laws to protect themselves from being copied by others, instead of claiming property rights to their ideas, maverick software geniuses, like Stallman, have used the copyright laws and reversed them: "asserting his own copyright claims, but only to force all downstream users who wanted to rely on his contributions to make their own contributions available to everyone else," and thus coining the term *copyleft* (Benkler, 65). This new contractual relation ensures collaboration and the proliferation of contributors that will let others use for free their own work, what is also known as free or open-source software. This is an ingenious way of using existing legislation to subvert its intent from exclusivity to shared knowledge, from personal benefits to social ones. This notion is reminiscent of but more explicit in its procedures than both Collingwood's framework of collaborating artists and performers and audiences and Polanyi's notion of tacit knowledge.

As for the standard view of capitalist markets (and one adopted by the Constitution) that the only motivation or incentive for innovation is financial rewards (Boldrin and Levine 2008, ch. 5), it becomes clear from the newly transformed networked information economy model that other social and personal rewards can be just as strong (Benkler 2006, 92ff.). As we have seen with some of the behavioral economists, traditional views of human nature and of human rational behavior have limited explanatory power when considering a whole range of relationships and exchanges that people engage in on a daily basis. In an original treatise on the gift relationship as it applies to donating blood, Richard Titmuss provided ample empirical evidence to illustrate that market mechanisms used in the United States offered both quantitatively and qualitatively worse blood than in the United Kingdom where nonmarket mechanisms are operational (Titmuss 1971). But even if we remain within the domain of the marketplace, even if we remain committed to the efficiency perspective from which all market transactions are evaluated, Benkler still believes that "social production systems—both peer production of information, knowledge, and culture and sharing of material resources—can be more efficient than market-based systems to motivate and allocate both human creative effort and excess computation, storage, and communications capacity that typify the networked information economy" (115).

Moreover, as Boldrin and Levine suggest, innovators are rewarded in a variety of non-market-like ways without patents and copyrights (being considered geniuses, for example), so that the incentive argument does not hold. And as far as they are concerned, "copyrights and patents are the additional—and unnecessary—right to tell other people what they cannot do with the copies they have lawfully purchased" (128). If ideas were afforded the common property rights as other commodities sold in the marketplace, they would afford their creators sufficient financial rewards because of the time lag it takes to appropriate them (158–160). And finally, when the actual competitive marketplace is at work without the hindrances of any legal stricture of copyright, as is the case with the pornography industry that retains its distance from the rest of the entertainment industry, it is a thriving and growing market. As such, it provides the counterargument to those who suggest that copyright is an essential ingredient for motivating artists and innovators to work (36–39). This is not to say that copyrights are absent; rather, their presence is not meant as a deterrent for future use or as a way to close systems. If credit is given to code authors, it is not limited to or concentrated on financial rewards.

It is from this perspective that Benkler as well as Boldrin and Levine tackle the global economy. Having cited the great advantages of the Internet, of free and open-source software, both testifying to the collaborative effort of billions of users who can potentially contribute to the growth of the global information, knowledge, and culture economy, and the nonmarket social alternatives that will dominate the future of this economic model, one wonders what is standing in the way of this utopian vision. "The primary obstacles to the diffusion of these desiderata in the required direction [of welfare, development, and growth] are the institutional framework of intellectual property and trade and the political power of the patent-dependent business models in the information-exporting economies" (Benkler, 354). This is also the conclusion of Boldrin and Levine who decry the monopolistic hold that intellectual property tends to bring about. The case of the pharmaceutical industry is paramount for them to demonstrate the great evils of such rights as they affect developing countries (ch. 9). This is not because of some conspiracy to deprive developing countries of potential benefits, but because the economic and legal systems of the developed countries are such that they expect certain fiduciary responsibilities from market participants. The consequences, of course, are quite dire when it comes down to keeping certain drugs or agricultural processes from being freely shared with starving populations of the developing world.

As we have seen, intellectual property rights, including copyrights, patents, and trademarks, seem to fulfill the needs of a bygone era that relied on a capitalist market model that was concerned with motivating individuals to bring innovations into the marketplace. The model itself is under attack, because the material conditions that brought about its construction have dramatically changed. Practical changes bring about theoretical changes, and the logical arguments for retaining copyright legislation seem to be slowly disappearing, so much so that a great many individuals are simply ignoring it or subverting it. In so doing, the exclusive focus on the financial rewards for individuals is being transformed as well. This is not to say that people can do without money to support themselves. But it could mean that the dominance of the mainstream model of the marketplace is being slowly supplemented by other, more innovative models that allow for different ways of thinking of one's well-being. Perhaps this is the postmodern twist of this economic narrative: Multiple ways are open to us for interacting and exchanging, for providing the material conditions for our survival and enjoyment. The dominant model might never disappear, but its dominance might be fruitfully undermined by alternative models that promote innovation and creativity that reward us in multiple ways.

Chapter 4

Victimhood and Entitlement

Martyrs and Heroes

The second part of the twentieth century has brought about a sense of both victimhood and entitlement in the United States. It might be thought that the one led to the other, that as a result of feeling victimized by society as a whole some have felt entitled to compensation by that same society. This might be understood historically in terms of the civil rights movements of the 1960s that focused on the plight of blacks and women as minorities whose legal standing as equals among their fellow citizens had not been implemented or practiced: Discrimination was still apparent in every walk of life, from commerce to government, from the public domain to the private, from the marriage institution to the hospital bed. So, following this line of historically grounded argument, it is suggested that the way to compensate for past injustices is to provide special programs that can right the wrongs of the past. A variant of this argument could be found as the basis for affirmative action programs and policies, where race and gender become important criteria according to which job allocation, university enrollment, and housing decisions are considered.

But this is only one way of thinking about the relationship between victimhood and entitlement. Another way of thinking about this relationship is more psychosocial in nature. According to this way of thinking, only when one feels victimized does one feel entitled to compensation: The one emotion brings about the other, the one experience heightens the other, the one condition becomes the precondition of the other. This might be thought of as a psychopathology that is personal in nature—this is how I feel, these are my feelings—but also one that receives public endorsement through professional help in the form of therapists and social workers or through the popular media that documents both sets of experiences and feelings. Either manifestation becomes a format and a platform for public legitimation of personal feelings. This is akin to the Freudian move from the individual to society and back again, explaining, as he does, in books, such as *Civilization and Its Discontents* (1961) that there are parallel psychological structures between the individual and civilization, from the reality principle (that ties us down to the material conditions of our age) to the pleasure principle (that foments desires and fantasies we wish to fulfill). Without going into technical details, the point is that if one feels victimized, and is helped to understand why and how this happened, there would inevitably be a desire for compensation (if not outright revenge), be it in the form of being asked for forgiveness or being treated radically differently than before. From another perspective, it is claiming that examining our psychological makeup in depth simultaneously engenders certain feelings or perceptions of feelings, such as victimhood and entitlement. At this level of examination, feeling victimized and entitled is fundamentally the same kind of feeling, based on one's perception of the environment and one's position within it.

A third way of perceiving the relationship between victimhood and entitlement is that though they have been keenly observed at the same time in the same place, they come out of different sources and therefore have very little to do with each other. For example, it can be argued that feelings of victimhood, from the recollection of adults some thirty to fifty years after they were abused as children—verbally, sexually, psychologically, physically—to more recent subliminal experiences or explicit experiences that have been framed in terms of victimhood—workplace behavior that is framed as being inappropriate or abusive—are all conditioned by a more sensitive culture that recognizes the realities felt by minority or other more vulnerable groups. On this reading, then, what we observe is the changing of the cultural conditions of a society, where sensitivity to inappropriate behavior or an awareness that one's behavior can be interpreted differently from its original intent ("I did not mean to hurt your feelings, but, alas, I have!"), and therefore the opening of multiple interpretations, all of which, in a postmodern sense, have equal status as legitimate, even if partial, views of reality. The issue here, then, is the changed culture and how it has affected our sense of victimhood. The other side of this same cultural coin suggests that as affluence has increased overall in the United States, more people feel entitled to share in the comforts afforded to the rich. One can see this attitude in commercials and advertisements, where the idea that "you deserve only the best!" is pervasive. Do we really deserve only the best? What if we settled for almost the best, or second best, or just plain very good? This way of looking at both victimhood and entitlement is informed by the improvement of the material conditions of our daily lives, from cars and air-conditioning, to fast-food and 24/7 entertainment, all at the rock-bottom costs that ensure we are all active consumers, accounting for more than two-thirds of our national economic activity.

The current financial crisis has been accompanied, as I have said in the preface, by a crisis in confidence. The confidence crisis relates to our cultural settings as they have been understood since the mid-twentieth century. The current economic crisis is indeed related to and will bring about a deeper psychosocial crisis. As I tried to illustrate in Chapter 1, Adam Smith was keenly aware of this connection between money and morality, between one's pursuit of self-interest and one's moral tranquility. This is not to say that only rich people are happy or that poor people are necessarily immoral; rather this is to suggest that speaking of the marketplace without recognizing its effects on the psychosocial dynamics of a community is barren if not misguided. Likewise, appreciating the social context of financial transactions and the ways in which it influences our financial behavior is crucial, as some thinkers and critics, like the German Max Weber and the American Thorstein Veblen, have understood.

It was Veblen who more than a century ago described and analyzed in a critical and stinging way the behavior of the very rich, the affluent class whose conspicuous consumption was beyond the rational boundaries of the neoclassical *homo economicus* (1899). What he termed *the leisure class* was so detached from common market forces that it defied any logic imposed on or emanating from those forces and cycles. Buying outrageously expensive items was irrational from an economic perspective, but the right thing to do if the intent were to flaunt wealth and acquire the kind of social status that defied financial gravity and aspired higher and higher on the social ladder. Veblen's portrayal has stayed with us, whether in literature (F. Scott Fitzgerald's *The Great Gatsby,* 1925) or reality, becoming more visible among all the classes aspiring to become part of the leisure class. Any sense of entitlement can be appreciated from this historical and sociological perspective so that the economic dimension becomes a means to an end rather than a determining factor. By the late twentieth century, credit was available to all, and personal debt for personal consumption was counted in the billions of dollars. Not only are you entitled, not only will your entitlement catapult you into higher social standing, but corporate America will finance your particular sense of entitlement.

Regardless of which perspective ends up being more convincing or appealing to us in terms of our own realities and experiences, all the perspectives push us to rethink the relationship between the individual and the community. That relationship can be described morally and socially, the way Adam Smith did in the eighteenth century, or it can be described in broader national and international terms, as he had done as well, and as many generations of economists have done after him. So far, I have focused my attention more on economic and technoscientific conditions that move us to behave in certain ways or that impel us to enact certain policies and reject others. In doing so, I tried to steer clear of ideological concerns or the principles that underline them, and instead illustrate how the American variant of pragmatism overshadows these ideologies (of the right and left of the political spectrum) because of its efficacy. But as we move along these trajectories, as we examine more nuanced experiences and see the extent to which the standard views of human reason and rationality fail us, it might be useful to revisit some of our themes in psychosocial terms and see where they lead us. When doing this, we might appreciate how American pragmatism is in fact based on a nuanced view and reality of human nature and human interactions.

Reciprocal Altruism and the Prisoner's Dilemma

As opposed to my contention that we are torn between and at times enjoy simultaneously victimhood and entitlement, the critic Robert Hughes suggests that our culture likes the "twin fetishes of victimhood and redemption" (Hughes 1993, 16). Following W. H. Auden, Hughes suggests that historically there has been justification for the Puritan attitude in regard to their own persecution in the Old World, and that this sense of victimhood found its home in America with strong religious overtones of expected redemption. The redemption, though, was not religious in the traditional sense, but instead became social and political in nature, whereupon the government was supposed to remain small and relatively powerless and would never have the power granted to the British monarchy. But as the years went by, and as we have come to establish strong democratic procedures and policies, we have never fully lost our sense of persecution: The government is after us, it collects taxes from us, it does not care about us when we lose our jobs and houses, and therefore it remains ineffectual as a medium of redemption. As we saw at the end of Chapter 1, we are still ambivalent as to whether the government should intervene in the financial markets that control mortgages or stay on the sidelines and let the markets play out their cycles. Likewise, we remain committed to a democracy wherein we all share equal rights and duties, but where individual concerns and problems cannot become paramount (because you are always a member of society and not an island to yourself).

So, when Hughes titles his book *Culture of Complaint,* he obviously does so not simply in a descriptive sense, but in a sense of condemnation that we have become a culture of whiners who want everything both ways: to be left alone to our vices, but whenever any sense of victimhood is felt, we want the whole world to come to our rescue. Perhaps too many therapies have been offered, perhaps we have lost our true sense of individuality and personality and identity; perhaps we are responding to others—our parents and relatives, our fellow students and workers, our fellow citizens—as the only way to recognize in ourselves who we truly are (Hughes, Lecture 1). Just as Hegel reminded us that the master–slave relationship was problematic because each one needed the other in order to realize what role was played by either and what could materialize from the interaction (Hegel [1807] 1977), so have numerous psychotherapists appreciated codependence as a definable human condition that informs human relations. But we should tread lightly here, for some of our concerns are legitimate. For example, it is reasonable for us to complain about government surveillance, when it is unauthorized by a judge (as has been happening since the Patriot Act passed overwhelmingly in Congress), and feel rightfully persecuted (especially with some empirical evidence of such activities), or about what we experienced during the McCarthy era of a fabricated communist scare in our midst that warranted arrests and loss of jobs, blacklisting, and exile (see Schrecker 1986). It is quite another thing to claim that all dependence or reliance or support is codependence or victimhood.

We can feel quite good about sharing and cooperating, even feel that it is an essential human characteristic without thereby adding unnecessary negative connotation to such behavior or thinking that it will adversely affect us. Once again, we return to examine our views of human nature and the nature of human rationality, looking backward for historical insights and forward for new policy recommendations. In what follows I will examine some Enlightenment ideals concerning human progress and perfectibility, our tendency or propensity to cooperate as a survival mechanism, and finally some experimental results from what is known as the Prisoner's Dilemma.

As we saw in Chapter 1, Enlightenment ideas and ideals are still guiding our own age and provide the framework within which we think and operate, even if this process occurs subconsciously. One of the best examples of the belief in human progress is the one outlined by Antoine-Nicolas de Condorcet in 1795. In his treatise on the progress of the human mind, Condorcet makes it clear that his interest in sketching our indefinite perfectibility is tied with an appreciation of what makes us so uniquely human, as opposed to other animals: "Already, the dawn of science had begun to break; man revealed himself to be distinct from the other species of animals and seemed no longer confined like them to a purely individual perfection" (1979, 6). Speaking and writing, reading and communication allowed individuals to seek the help of others, learn from the knowledge of others, thereby improving their own condition and their own intelligence within a community, which came eventually to develop science as we know it today. For Condorcet, the evolution or development of humanity owes much to the fact that "men are united in tribes," and these associations that bring them together depend less on urgent material needs for survival and more on "the concurrence of a great number of circumstances." Condorcet continues to explain that these associations eventually bring about a sense of justice:

> More frequent and stable intercourse between people, the identity of their interests, and the help that they gave one another in communal hunting and defense against an enemy must have produced in equal measure the sentiment of justice and mutual affection between the members of the same society. Soon this affection developed into an attachment to the society itself. (14–15)

Condorcet elaborates the ten stages of human progress in a continuous and positive sense, showing how humanity moved from a level of survival to one of abundance so that all the conditions he enumerates "contribute to the perfection of the human race," and so he can conclude that "the perfectibility of man is indefinite" (199).

One may think that Condorcet was too optimistic, that his faith in progress was overshadowing any sense of brutal retreat from progress, or even any sense that humanity might become more cruel and unjust as time went by. At the juncture of history when Condorcet wrote, there might have been many reasons for having faith in progress, at least as wishful thinking; after World War II, with Auschwitz and Hiroshima and Nagasaki on our minds, this faith has been undermined if not fully abandoned. How can we believe in the indefinite perfectibility of humanity when its barbarity was starkly exercised on its own members? How can we believe in the "tribe" that Condorcet describes and extend it to include humanity as a whole? Indeed, Condorcet envisioned "enemies" that would be threatening and that would be fought, but he also believed that in time peace would ensue among all the tribes.

Perhaps what is at stake are the two main views of human progress, which in turn express their own ideological prejudices. On the one hand, we have the social Darwinists (e.g., Hofstadter 1944), who claim that it was the survival of the fittest that brought us to this point in history. This analysis takes its unit of measurement to be individual humans who struggled against each other under conditions of scarcity (see Sassower 1990). Incidentally, it might be relevant at this juncture to see the parallels between Darwin and Malthus insofar as, according to Hofstadter, both Darwin and Wallace (his codiscoverer of natural selection and evolutionary processes) were inspired by Malthus. As Darwin acknowledges:

> In October 1838, that is, fifteen months after I had begun my systematic inquiry, I happened to read for amusement "Malthus on Population," and being well prepared to appreciate the struggle for existence which everywhere goes on from long-continued observation of the habits of animals and plants, it at once struck me that under these circumstances favorable variations would tend to be preserved and unfavorable ones to be destroyed. The result of this would be the formation of new species. (Hofstadter 1944, 39)

On the other hand, we have socialists who claim that it was the cooperation among individuals that allowed them to survive against other species (as Condorcet argues). For them, the unit of measurement is our species as a whole, which surpassed other species or which was able, despite conditions of scarcity, to create conditions of mutual benefit and abundance (agricultural cultivation rather than solitary gathering). These views seem obtuse and irrelevant on one level, because they rely on reconstructed evidence that may or may not be verifiable. But on another level, these views exemplify the kind of mind-set we must appreciate till today, because it is these different views of human progress that provide the benchmark against which to measure our own condition as victims or villains, heroes or martyrs. If you feel successful and measure your feeling with the material accomplishments that you alone have been able to display, then the Darwinist model makes sense to you. And as you look around you, you despise those who have not been as "fit" (or, put more accurately from my perspective, "lucky"). If, by contrast, you feel that your success (or failure) is attributable to a great many people around you who directly or indirectly have contributed to your position or status in society, then you would inevitably be modest in your claims of personal success or reticent in blaming others for your predicament. Recalling Condorcet is therefore a good way of rethinking our own narratives of personal successes and failures, realizing along the way that we are always already members of a society, tribe, or community, and that our own identities are formed by our group affiliation before we are even born. This is neither a gift nor a curse, but a reality we come to live with if we wish to have a Spinoza-like peace of mind.

In a fascinating set of studies concerning reciprocal altruism, the Harvard biologist Robert Trivers has explained that "each individual human is seen as possessing altruistic and cheating tendencies, the expression of which is sensitive to developmental variables that were selected to set the tendencies at a balance appropriate to the local social and ecological environment" (1971, 35). Trivers's studies have shown that reciprocal altruism, helping someone at one point and expecting this kind of help from her or him at a later point, makes sense with species so much so that there might be some "broad conditions that favor the evolution of reciprocal altruism" (38). The point here is that helping others along the way, because of the cost-benefit analysis that suggests the costs of helping are minimal compared to the benefits (saving her or his life, for example, when drowning or being embattled in a fight with others) turns out to be a trait that evolves and is retained in the human species. Of course, what is also being assumed is that there is some symmetry in our relationships, so that we expect to encounter each other repeatedly over time. We will return to some of these issues when discussing below the Prisoner's Dilemma. In the meantime, I will summarize Trivers's finding regarding fish, birds, and human friendship.

In order to differentiate from obvious kin relationships that easily lend themselves to altruistic behavior, Trivers chose to examine a cleaning symbiosis "performed by members of one species for the benefit of members of another." More specifically:

> One organism (e.g., the wrasse, *Labroides dimidiatus*) cleans another organism (e.g., the grouper, *Epinephelus striatus*) of ectoparasites (e.g., caligoid copepods), sometimes entering into the gill chamber and mouth of the "host" in order to do so. Over forty-five species of fish are known to be cleaners, as well as six species of shrimp. Innumerable species of fish serve as hosts. . . . It is a striking fact that there seems to be a strong correlation between degree of dependence on the cleaning way of life and immunity to predation by hosts. (40)

What is surprising, of course, is that the hosts could easily eat the fish species that are the cleaners, just as the cleaners could avoid being inside the hosts that might eat them. Yet, the two have coexisted for a long time and have performed several altruistic acts, the most obvious of which is for the host not to eat the cleaner fish and to give a signal that it is departing from the area, and for the cleaner to take the risk of cleaning the inside of the host. Trivers admits that certain conditions must hold in order for his hypothesis about reciprocal altruism to hold:

> That hosts suffer from ectoparasites; that finding a new cleaner may be difficult or dangerous; that if one does not eat one's cleaner, the same cleaner can be found and used a second time (e.g., that cleaners are site-specific); that cleaners live long enough to be used repeatedly by the same host; and if possible, that individual hosts do, in fact, reuse the same cleaner. (41)

Reviewing the relevant data, Trivers concludes that the two species in fact meet all of these preconditions for "the evolution of reciprocally altruistic behavior" (43). The way Trivers explains this relationship illustrates that one can think beyond kinship as the only precondition for altruistic behavior.

The second set of examples Trivers provides deals with warning calls in birds, where there is a great benefit to those who hear the warning calls of the caller bird, but less benefit to the caller who might be spotted by the predator or another predator and therefore bring about its untimely demise. But natural selection has favored caller birds over time, so there must be some overall benefit that has resulted from this altruistic behavior. But instead of relying in this case on the reciprocity that characterized the case of fish species, in this case the conclusion is that "it is the mere fact that the neighbor survives that repays the call-giver his altruism" (44).

When it gets to humans, Trivers suggests that following:

> Any complete list of human altruism would contain the following types of altruistic behavior:
>
> 1. helping in times of danger (e.g., accidents, predation, intraspecific aggression);
> 2. sharing food;
> 3. helping the sick, the wounded, or the very young and old;
> 4. sharing implements; and
> 5. sharing knowledge.

All these forms of behavior often meet the criterion of small cost to the giver and great benefit to the taker (45).

Though he continues with more specific and technical distinctions to appreciate the extent to which humans indeed behave altruistically toward their fellow humans, kin or not, Trivers makes sure to explain that his own observations and those of others on which he relies end up being not exclusively dependent on socializing mechanisms, such as peer pressure or the conditions under which one climbs the social ladder, but are in fact evolutionary in nature, which means that they acquire genetic components. In his words:

> There is no direct evidence regarding the degree of reciprocal altruism practiced during human evolution nor its genetic basis today, but given the universal and nearly daily practice of reciprocal altruism among humans today, it is reasonable to assume that it has been an important factor in recent human evolution and that the underlying emotional dispositions affecting altruistic behavior have important genetic components. (48)

Careful as he is, Trivers nonetheless brings together Adam Smith's concerns with an acknowledgment of the importance of human emotions (*sentiments,* in his terminology) as a foundation for human interaction, as well as Condorcet's belief in the essential need for human collaboration leading to tribal strength that ensures individual succession and communal progress. Trivers is circumspect in his pronouncements, the critical scientist who does not want to overstate his claims; but he is quite clear that no matter how one defines altruism (real versus calculated), in terms of one's motives (which might be self-serving or not) or in terms of behavior (regardless of motives), these distinctions protect us from being fooled by those who abuse our generosity or refuse to reciprocate (51–52). It is interesting at this juncture to bring to mind the Golden Rule we have mentioned in earlier chapters, and appreciate the extent to which any reciprocity of altruistic behavior induces feelings of friendship that might be effective even when encountering a stranger or an enemy (52).

Of course, the question of cheaters, as Trivers calls them, or those who fail to see the larger framework in which they make their behavioral choices comes to mind. In some cases we are worried about the "free rider" problem, where individuals do not contribute their fair share to the group effort (which will be discussed in more detail later), and in others we are worried about decisions and choices individuals make in isolation instead of in consideration of the consequences their behavior has on others. This is formulated famously in the Prisoner's Dilemma. The original formulation is attributed to R. Duncan Luce and Howard Raiffa and is mathematically sophisticated beyond current treatments (1957). The following is my favorite description as Richard Thaler has it:

> The two players are prisoners who have jointly committed some crime and are being held separately. If each stays quiet (cooperates) they both are convicted of a minor charge and receive a one-year sentence. If just one confesses and agrees to testify against the other (defects), he goes free

> while the other receives a ten-year sentence. If both confess, they both receive a five-year sentence. The game is interesting because confessing is a dominating strategy—it pays to confess no matter what the other person does. If one player confesses and the other doesn't, he goes free rather than spend five years in jail. If, on the other hand, the other player also confesses, then confessing means a five-year term rather than ten. The assumptions of rationality and self-interest yield the prediction that people playing a game with this structure will defect. [Cooperating, of course, yields the best result for both.] (1992, 8)

Two important factors come into play here: First, the two prisoners cannot communicate with each other and therefore cannot anticipate what the other will do, but must act simultaneously, and second, this is a one-time situation. As we have seen with Trivers, the more likely any kind of interaction among humans or other species is repeatable, the more likely it is to produce cooperative or altruistic behavior, because some reciprocity might then be expected. Moreover, if the prisoners in this situation were aware of each other's choices or could communicate, there would be no dilemma at all: Both would remain silent. The dilemma comes into effect only because the individual strategy of betrayal or defection makes sense under conditions of ignorance: Each would be better off betraying the other, receiving no sentence at all or half the maximum if the other betrayed or defected as well. As we can see from this simple "game" (as it is commonly called by game theorists), the rational and Pareto-optimal strategy of maximizing one's utility, benefit, or well-being with complete disregard to anyone else would eventually lead to an overall worse position than if the two cooperated and remained silent. This can also be understood in terms of short-run, self-interested strategies and long-run, mutually beneficial strategies, almost akin to earlier comments I have made in regard to coordinated planning of information dissemination.

This is taken into account in a variant of the Prisoner's Dilemma as just described, called Iterated Prisoner's Dilemma. As Robert Axelrod (1984) illustrated, if rational players repeatedly interacted for indefinitely long games and thereby were exposed to each other's decision-making processes, they were more likely to exhibit cooperative behavior. When many players were involved, it was shown that greedy or selfish strategies in the long run were not as effective as altruistic strategies, as judged by fulfilling one's self-interest. Axelrod here provides another argument and a set of experimental results on behalf of Trivers's hypothesis regarding human evolution. Though some of our behavioral mechanism and strategies might be *selfish* in some sense of the term (preservation, survival, protection), they lead us over time as a species to adapt altruistic mechanisms and strategies for survival and progress. But, what is the unit of measurement when we speak of a group? Is it the two "prisoners," a group of players in a Prisoner's Dilemma kind of a game, or society as a whole? In a brief commentary on the whole debate, Gordon Tullock had the following to say:

> By deliberately putting the criminals in the dilemma, the prosecutor is acting rationally; and if they follow their individual rationality [defecting or cheating or confessing], society as a whole will be better off than if they behave in a manner which maximizes the payoff of the prisoner's own little two-man society. (1967, 229)

So, what we have been arguing here is that though there is a beneficial outcome for the prisoners if they cooperate with each other (and thereby remain silent to a crime that was in fact committed), it is indeed the worst outcome for society as a whole: no confession, no identifiable criminal, and short sentences for the two silent alleged criminals without justice to the aggrieved party. This critical commentary, then, relates back to the original point made in Chapter 1, where the suggestion was that self-interested behavior in the marketplace, for example, made sense and was both rational and reasonable because it worked within a broader framework of benevolence, where moral and social cooperation and respect for others were paramount as a foundation and a goal.

Whatever our psychological propensities or biological tendencies might be, whatever conjectures we might put forth to ascribe specific characteristics of human nature, and whatever preconceived ideas we deploy to observe our evolutionary trajectory, it can be safely argued that the claim for cooperation is sustainable. In fact, if cooperation becomes a necessary condition for our evolutionary success, then we will begin to see ourselves outside our limited individuality and as part of a greater communal whole. When doing so, the very notions of victimhood and entitlement make little sense, for the demand from others is undermined by the demand from ourselves: The fundamental reciprocity of human behavior denies us the claims of victimhood and entitlement. Put differently, we are neither heroes nor martyrs, but simply members of a large community that expects us to do our best to benefit ourselves and others.

Rational Cooperation and the Free Rider Paradox

Moving from a general description of our culture as composed of individuals whose sense of victimhood and entitlement is broadly defined and poorly substantiated to a more specific set of experiments regarding human interaction in large groups that would lead to evolutionary adaptation and transformation, we might be ready to move back to the economic arena in general and the corporate world in particular. As we make this transition, it is necessary to recall that the general statements made in the previous section about human rational behavior in terms of moving logically from a set of assumptions (about one's position, condition, and the available material resources) and about *homo economicus* as a rational utility (that is, benefit compared to cost) maximizer must be contextualized. As Paul Diesing explains, "economic rationality, or economizing, consists of the deliberate allocation of scarce means to alternative ends in such a way that the ends are maximized. There is general agreement on the above definition, but disagreement on how it applies to reality" (1950, 12). This means that either there are other kinds of rationality and that they are applied to spheres outside of the economic or that there is one kind of rationality but that depending on the spheres where it is applied it finds different modes of expression. Of course, one could argue that any time we act outside the economic sphere we act irrationally, for example, when we are kind to friends, or that economic behavior and rational behavior are synonymous.

Diesing summarizes briefly the different historical perspective economic theorists have taken, so that for the utilitarians, such as Bentham, "economic rationality was simultaneously an ethical, an economic, and a psychological principle" (12). By contrast, according to Marshall's theory, "economizing served mainly to improve character and that the economic man was a moral ideal which ignorant and lazy people did not live up to" (13). So, good character enhanced economic-like behavior of prudent and upright people, and whenever any anomaly of irrational behavior appeared on the scene it could be explained away as behavior in bad faith or simply the behavior of uneducated and lazy people who prefer, for example, job security to hard work and upward mobility in the workplace. The upshot of this position as it has become the common view of contemporary economists has been to isolate an economic sphere within which one's behavior can be measured and assessed in terms of rationality, utility-maximization, and efficiency (all of which are interrelated concepts). But the very notion of rational or economic behavior is itself problematic, because it is not clear whether it is meant to be descriptive—telling us how people behave in the real world—or normative—how people should behave under ideal conditions. Before we know it, we are confronted with norms or standards or conventions that are external to the economic sphere but that nonetheless influence our behavior. The norms, incidentally, are not limited to our desire to be rational rather than capricious because we are expected by our fellow-humans to be predictable in our behavior, but they can be more specific in terms of expectations that relate to tastes (car sizes or dietary choices) and preferences (cell phones rather than landlines, fads and fashions in housing and clothing choices) or to general norms and principles that relate to our manners and duties, such as thrift, enterprise, efficiency, and kindness (16). So, concludes Diesing, the scope of economic rationality and its very definition are limited by other rational and nonrational norms, all of which can redefine the very scarce or abundant resources available to humanity and the goals that it attempts to accomplish (16–17). In this sense, then, all the factors people consider when acting come from multiple sources and depend on multiple backgrounds, so that any attempt to streamline them into one version of economic rationality would become idealized or hypothetical to such an extent as to be either utopian or meaningless.

Seeing the limits of the scope of economic rationality as a concept, theory, or principle does not mean that there is no value in considering human rationality at all. Rather that, even when we consider rationality, as many philosophers do, in economic terms, we should worry about how this kind of behavior relates to morality, because (as we have already seen) interpersonal relations and our social interdependence necessitate a level of cooperation and reciprocal altruism to ensure the survival and progress of the species. According to David Gauthier, "to identify rationality with the aim of utility-maximization is then to identify it with prudence, and in so far [*sic*] as morality is different from prudence, to distinguish it from morality. The moral man is not always rational, and the rational man not always moral" (1975, 421). Quoting Rousseau to the effect that the "passage from the state of nature to civil society produces in man a very remarkable change, in substituting justice for instinct in his conduct, and giving his actions the morality which previously they lacked," Gauthier suggests that it is not the evolutionary transformation we discussed previously that brings about reciprocal altruism or some variant thereof, but rather a certain level of agreement we come to in terms of the social norms and political regulations (431–432). So the switch from considering all of our actions independently from any other set of actions or as if they are outside of the social or market framework, to a point when we recognize them all to interdepend on the actions of others is to go from utility-maximization to a constrained maximization that acknowledges the rights and duties of others. The interdependence matrix, then, is bound by mutual agreements, whether explicit or implicit, and can foster fairness and justice. As Gauthier concludes,

> Morality may thus be placed within the bounds of the maximizing activity of economic man, given our enlarged conception of economic man, and yet distinguished from prudence, from the direct pursuit of one's wants and desires. The moral man is no less concerned with his own well-being than is the prudent man, but he recognizes that an exclusive attention to that well-being would prevent him from participating in mutually beneficial agreements. (432)

Gauthier's distinction between morality and prudence follows to some extent the Greek distinction between prudence and justice, where the former might be more achievable or a more efficient mode of action, and the latter had such high requirements that it could rarely be achieved at all. As a policy, then, acting with prudence was an acceptable first step, what Gauthier considers a way of taking care of one's well-being, but what the Greeks would have considered also appropriate for interdependent actions. Justice was held in such high esteem that putting it on par with morality as Gauthier understands it as potentially within the realm of economic behavior, would seem odd. Yet, Gauthier makes a decent attempt to bring together the economic and moral domains and thereby avoids the schism between the two, such that the one is irrelevant to the other. Similarly, when he combines the moral and the economic by expanding their reach into the realm of agreements and justice (as Rousseau does when he moves humanity into civil society), he provides an argument why it would be rational for us to cooperate (Gauthier 1974).

This background might sound a bit tedious and technical, but I believe it provides the cognitive, and even the social and emotional, prism through which to look at a group of people within a modern company. Whether the company is small or large, whether it is privately or publicly owned, whether it is local or international, it provides a common ground or site in which individuals interact. How should they interact? Should they be selfish and self-directed or cooperative and work in teams? Is it possible for individuals to pursue their own agendas and still do so within a framework of others who behave just like them? It seems that the questions that were raised previously in conjunction with the Prisoner's Dilemma and the Iterated Prisoner's Dilemma remain relevant here. We might wish to further study the biological and evolutionary issues raised by studies of reciprocal altruism, or we might want to delve into the extensive literature of interpersonal relations as described by psychologists and communication theorists. Instead of these two options, I suggest we move to describe in general terms what might be useful ways of thinking about the corporate structure and the need for considering factors other than economic ones in attracting employees and in ensuring the stability of the workforce. It is no accident, incidentally, that even *The New York Times,* when advertising its own "classified" Web site says the following: "Find jobs with great benefits. Like fulfillment." The benefits associated with work are not limited to the salary or health benefits your might receive, but extend to the environment in which you work, the flexibility of your schedule, and, yes, the fulfillment you might achieve doing what you get paid to do.

This sense of fulfillment is echoed in most jobs where standard compensation seems relatively low, such as teaching jobs, hospice care, and faith-based organizations. As Volvo has experimented in its factories, the assembly-line methods already outlined by Adam Smith and perfected by Henry Ford are mind-numbing and tedious, so much so that they incur inefficiencies stemming from quality-control problems. To solve these problems Volvo management suggested the rotation of all assembly-line workers so that in the course of a week or two each worker would see a car being completely built, and would then have the satisfaction that she or he in fact produced a car, rather than just adding wheels or doors or glove compartments. Experiments like these eventually brought about Total Quality Management methods for corporate America and the rest of the world, learning along the way from our Japanese counterparts who have a much stronger notion of team effort as well as a sense of responsibility to provide lifelong employment that breeds loyalty and trust. The ideas behind this late–twentieth-century trend is not merely to satisfy one's customers or clients, but to ensure that all the processes the company engages in are satisfying and provide qualitative differences that simple quantitative measures of the past could not achieve or did not care to achieve.

When Thomas Malone of the Sloan School of Management at MIT wrote about the future of work (2004), he understood the kind of issues already discussed in the previous chapter by Benkler in regard to networked information technologies and industries. He realized that free collaboration among individuals outside the corporate structures would become more common and would put into question some long-held beliefs about human self-interest as the only motivator or incentive for individuals to do anything, especially work. But, according to Malone, the new technologies did not bring about this transformation in attitudes, but rather were the beneficiaries of our change of heart, perhaps because they could easily accommodate such behavior. Workers are seeking non-economic goals, like freedom, personal satisfaction, and fulfillment (as in the *New York Times* ad), so that they feel less like cogs in a large wheel or pieces of a puzzle they cannot comprehend. Their desire for control over their own fate and energy, their work and time, could lead to astonishing results and unleash a great wave of creativity, not to mention goodwill and happiness.

As potentially satisfying and optimistic this view of cooperation might be, it is not without problems or paradoxes. The Free Rider Paradox (or Problem) brings to light the extent to which economic analysis fails to encompass the entire web of relations on different levels that come about when we combine individuals into groups or communities as well as the extent to which public goods, such as national defense or public parks and clean air evidence the limits of market-like behavior and analysis. As we saw in the case of GPS, public goods (even when these goods are privately owned) are both nonexclusive (it does not exclude my use or consumption when you use or consume them) and nonrival in terms of consumption (once provided, they are provided to everyone). We saw how these goods and services, specifically communication- and information-related ones described by Benkler in terms of the Internet, pose certain conditions different from those commonly regulated by the price system of the marketplace. Likewise, we have seen with Ariely's numerous examples that some human interactions not only remain outside the marketplace, but would be seen as inappropriate or insulting if one were to impose market-like behavior on them (e.g., if one were to pay one's relative for Thanksgiving dinner, Ariely 2008, 67–68). The formulation of the paradox is simple: Self-interested and rational individuals would act in such a way so as not to contribute at all but still consume (for free) something to which others have contributed. If the refusal to contribute, for example, to national defense, entailed that in case of war the noncontributor would not be protected, this would make sense. But that cannot practically happen in this case, as opposed to the case of a satellite that can scramble signals so that unless one pays, there is no access. The problem is historically documented and has been discussed in addition to the Prisoner's Dilemma (and its extension of the number of participants) by contract theory.

We recall the famous Athenian trial of Socrates less for its unfounded accusations and eventual guilty verdict than for Socrates' insistence that he abide by the unjust verdict and punishment of death. His argument for complying with the court was that he had lived in the city and enjoyed its benefits and could not change its laws, and he remained in the city, accepting its verdict, instead of fleeing. His stay, then, was his implicit agreement to a social contract with the city that he abide by its laws and verdicts, so that when a particular instance was not to his liking it would not warrant noncompliance. As defectors from military conscription around the world know, one's duties and one's rights are bound to one framework of a state and its government policies. But Socrates' example has not been consistently followed. By the time we reach the Enlightenment, we saw in Chapter 1 how Adam Smith struggled with the issues, and others, like David Hume, had similar concerns:

> Two neighbors may agree to drain a meadow, which they possess in common; because 'tis easy for them to know each other's mind; and each must perceive, that the immediate consequence of his failing in his part, is, the abandoning the whole project. But 'tis very difficult, and indeed impossible, that a thousand persons shou'd agree in any such action; it being difficult for them to concert so complicated a design, and still more difficult for them to execute it; while each seeks a pretext to free himself of the trouble and expence, and wou'd lay the whole burden on others. (Hume [1888] 1978, 538)

According to Hume, the issue is the shift from two people to many, just as we saw the problem with the Prisoner's Dilemma was that a one-time encounter differs from repeated interaction where mutual trust can be built. The larger the number of participants, the easier it is for the individual not to pull his or her weight, or contribute what is expected and what is fair. In the political arena this problem or paradox is dealt with in terms of taxation and regulation, two forms of coercive government behavior that attempt to preclude nonconformity or noncompliance. Of course, there are cases when individuals cheat and lie, refuse to pay taxes and fees, and try to take advantage of the system because it is too large to notice the occasional free rider.

Adam Smith understood this problem and argued for moral sanction, for the impartial observer that would ensure our behavior and our compliance, that would put pressure on us to eschew our own selfish, if rational, self-interest and accept our responsibilities to our community. We can shame our fellow workers into moral behavior and develop a culture of compliance and mutual trust and benevolence rather than a culture of distrust and selfishness. As we shall see in the next section, corporate America struggles with the assignment of proper desert, just as academics struggle with grading group reports. Should the group as a whole receive the same grade even though some within the group worked harder than others? If there is a free rider in the group, who will tell on her or him? Will she or he confess, or must they be "outed"? Can they escape notice? Will shame and guilt alone be the proper reward?

Personal Gratification and Rewards in Corporate America

One way of trying to answer these questions has to do with the way one views the firm. If the firm is viewed from a classical or neoclassical economic perspective as maximizing profits, maximizing efficiency, and having certain property rights (material or intellectual), we are bound to be limited in how we deal with job satisfaction and problems of free riders. Using the narrow, mainstream perspective, then, would bring about the kind of standard Marxist critiques, such as exploitation and alienation. Briefly summarized, they claim that whenever a firm is profitable, the profits are in fact a form of surplus that has been gained at the expense of labor that should have been better compensated for a zero-profit outcome. As for alienation, Marx describes three kinds, all the way from the simple alienation from one's actual work activities (as opposed to the craftsperson who is engaged with the product and enjoys its fabrication) to the alienation from other people both in the workplace (assembly-line, individualistic activities where no engagement with others is possible) and society (because every encounter is now formulated in terms of employee–employer, producer–consumer, buyer–seller, and the like) all the way to nature as a whole (seen now as a source for potential productive use rather than enjoyment and codependence) (Marx 1988).

Indeed, this Marxist way of looking at the capitalist firm or at firms that operate within the capitalist marketplace is still common among those who worry about the protection of employee rights and safety standards, work conditions, health benefits, and retirement plans. (For more on this see, for example, Peetz 2006.). Will unions solve the problems? Of course, unions have been instrumental, at least in the United States, in ensuring workplace safety (OSHA regulations), standard work-week hours (forty in the United States, fewer in some European countries), child labor restrictions, and even minimum wage. Some have argued that the fact that all of these issues have become standards in the mainstream marketplace have in turn made union membership obsolete. Yet, it is interesting to note that it is exactly within unionized firms that the problem of the free rider becomes most visible. If one joins a firm that is unionized, all the benefits of all previous negotiations are already present, and there is no incentive for newcomers to join the union and pay its dues (Booth and Bryan 2004). A similar problem, incidentally, has been the kind of health care coverage that is afforded to everyone (even those without insurance) because emergency rooms in hospitals are forbidden by law to refuse treatment because of lack of funds. As we mentioned at the end of Chapter 1, the Commonwealth of Massachusetts has passed a law requiring everyone to have some form of health insurance (just as car insurance is required of all drivers), so as to ameliorate some of the financial woes of free riders, uninsured patients who seek medical care. (See also Sassower and Cutter 2007, 26, 35–37.)

Back to firms and their employees, managers, and owners. The question regarding their relationships can be approached from an economic perspective, and of course one that accounts for the Marxian critique, while ensuring profitability and efficiency. But when analyzing this, we quickly slip into moral language, the language of equitable distribution, fairness, and justice. For example, it would seem that if we took out the inevitable tension between employers (capitalists or the bourgeois in the Marxian critique) and employees (workers or the proletariat), then both exploitation and alienation could evaporate. More specifically, if we developed employee stock ownership plans (ESOPs), then the workers would actually own their companies, be motivated to work as hard as possible for the collective good—and therefore would not tolerate free riders in their midst—and enjoy the fruits of their effort. A group of researchers, led by Douglas Kruse of Rutgers University, attempted to analyze data collected from firms that attempted in whole or in part to implement ESOPs. Though only about 20 percent of all workers in the private sector own stock in their companies, and about a third of those participate in ESOPs, their unique solution to the problem of motivation is worth examining, because if it works, then it could be the wave of the future employment relations in the marketplace (Kruse et al. 2003, 1). Put differently, outside of government employment and self-employment, the private sector is still the largest in the labor market, and any solution, however flawed, is worth studying. Among the issues Kruse and his colleagues attempt to study are the extent to which productivity and efficiency improve (a question of output measurement) and the extent to which job satisfaction rises under these circumstances and inadvertently diffuses the concern with free riders. Without boring you with all the technical details of their multiple studies and the studies of other national organizations they relied on, it is fair to summarize their findings in this way. First, ownership incentives, such as ESOPs, have a positive effect on productivity and diffusion of free riders; but second, that in order to measure an effect, ownership incentives alone do not suffice. What is required is what they call a "three-pronged hypothesis" or strategy, consisting of ownership incentives (including profit sharing, stock options, bonuses, outright stock ownership), participation mechanisms (teamwork, goal-directed committees, grievance procedures, feedback loops, and decentralized management), and a corporate culture that inculcates teamwork and hard work (and discourages or eliminates free riders) (20–21).

Kruse and his colleagues obviously see the corporate and even market benefit of ownership as an incentive to work hard and efficiently, but unlike the Marxian ideal they remain capitalist or centrists in their conclusion. Change in ownership alone is not enough; what is needed is a whole set of procedures and processes that in fact move the individual to think in terms of the group, the community, or the collective good, if you will. It is almost a subconscious appreciation of the impossibility of moving from capitalism to socialism just because someone says so, as the October Revolution in Russia erroneously envisioned. What is needed is not only the proper material conditions to affect this shift or transformation, but a cultural shift in thinking and feeling that recognizes the plight of others and the need to think collectively as opposed to individually. The cultural transformation takes a long time and might thrive, oddly enough, in prosperous nations better than in others, as we have seen in the past century in the Scandinavian countries, whose welfare programs have steadily increased with full public support. If anything, they are as "communist" as they can be without ever hearing the cannon-shot of revolutionary zealots. The rest of the European community as well as the United States are readily becoming more socialist or communist in this manner, shifting to providing welfare programs of all sorts and taxing the rich in order to help the poor. The redistribution of wealth and income remains a steady diet for most Western nations so long as the capitalist principles of profit maximizing, efficiency, and private property are not challenged.

Outside of national welfare systems, whether extensive or minimal, there is also the Israeli kibbutz movement that has been in place for more than a century. What has distinguished this experiment in communal living is the fact that it had a spirit, an ideology, and a commitment to ideals that transcended work relations. Whether Zionist or socialist, reclaiming the land for refugees or protecting the nascent state, the communal arrangement was a work in progress, where all had to contribute their efforts for the collective good. Likewise, everyone was taken care of and shared in the fruits of the combined effort. Free riders, of course, felt the pressure to perform or leave; efficiency and productivity were carefully assessed so that enough free time and leisure could be enjoyed by all. Having lived on two kibbutzim a long time ago, I can attest to the fact that the culture of work, where one's labor was valued by peers, was paramount in being accepted or being expelled. One's self-worth and identity were tied in with one's work performance, no matter if it was in the fields, the factory, or the laundry room. Once your identity is tied up with your work rather than with your education or your athletic ability, free riders are relatively rare. How one measures the success or failure of this experiment in Israel can be determined in numerical terms (a great failure over one hundred years, as the percentage of the population living in kibbutzim has declined to an effectively symbolic 3 percent) or cultural terms (a great pride in the value of communitarian living and the promotion of successful individuals who contribute to military and civic service far beyond their proportion of the general population). I mention this here as an outlier in our discussion, perhaps as an ideal whose salient characteristics might be usefully emulated in the corporate world. What makes them tick? Under what circumstances?

Mainstream economists, however committed to some broad sense of laissez-faire marketplace see the importance of having a corporate "culture" that values certain social and moral categories or norms that would be overlooked under standard or naive market conditions. I had a personal experience years ago when I worked for one of the major toy manufacturers in the country (outside Chicago) that was privately owned, had more than five hundred employees and more than thirty million dollars in sales (in 1980). Among its operations, it had an enormous assembly-line manufacturing facility that produced the only die-cast toys in America. We had quality and theft problems. We also had an industrial engineer who did very little, except to enlighten me that the average worker in America at the time needed to be told forty-two times what to do before she or he did it the way you expected it to be done. Wow! Because I was no longer the budget planner but the in-house consultant (instead of resigning after having finished the budget in three months rather than the allotted nine), I wondered if I could solve the theft problem. Incidentally, the literature agrees that in assembly-line situations where jobs are discrete and nonreplaceable, the free rider issue is almost nonexistent as opposed to situations where replacement of job activity is more prevalent. My solution was radical and despite some initial resistance was accepted: Take all the "seconds" (toys that did not pass quality control and had to be melted and refabricated) and put them on a table by the exit door to be taken for free by workers (they could, in fact, buy quality toys at half price any time). The first day of my policy implementation the table was almost empty. By the end of the week it was overflowing, and we began the regular refabrication of seconds. Everyone realized that when they needed toys as gifts for relatives and friends, they were readily available and free! Did we solve theft problems? Of course we did; we also reduced seconds by half, and the general attitude improved. We changed the culture. We told the minimum-wage workers that we respected their needs and offered them for free the fruits of their own production. On some level this is a great victory; on another, it does not go far enough toward ensuring a changed culture of ownership and exploitation and feelings of abuse and alienation. My point, though, is that even small, incremental changes in the behavior of managers and administrators can change an attitude, a way of perceiving the environment in which you work. With this in mind, I have suggested to numerous chancellors ever since my initial employment at the university, that inviting faculty and staff to their homes for free drinks and food could do wonders to improve morale and retention.

Linking rewards for employees with their ethical behavior is a relatively unexplored area of research, as Nancy Kurland correctly summarizes (1995). When surveying the literature, she notices that with few exceptions, most of the studies focus on "the extent to which the reward system enhances employee performance, employee turnover, product quality, motivation, and the like with respect to their employers but has virtually ignored the ethical implications of these reward systems and the potential impact on external stakeholders" (35). She brings up two related issues: first, that the relationship between employees and their employer is in fact only one of the axes around which employees pivot their job-related lives, because they also interact with clients or customers and also have some broader obligations to the marketplace as a whole; and second, that though rewards systems might be effective in one way, they might be counterproductive or have unintended negative effects that would render the whole enterprise uncooperative and even unethical.

The dysfunctionality of the reward system, from her survey of the literature, can be seen in the following ways: First, employees can beat their system of rewards if the rewards are piecemeal by slowing down their work production and setting low benchmarks for future rewards; second, by focusing on external rewards (extra pay, bonuses, and the like), the system inevitably undermines intrinsic rewards that come with cooperation and job satisfaction; third, rewards change our behavior temporarily and for specific goals, rather than creating ongoing intrinsic group motivation and good relations with people inside and outside the organization; and fourth, reward systems might increase competition among employees and thus increase rivalry and distrust instead of building long-term relationships of mutual respect and support (36–37). In short, outcome-related rewards that are easily measurable and thus easily quantified in financial terms might induce the kind of behavior that is detrimental in the long run; it might even bring employees into an ethical dilemma: Should they make the sale of a faulty product so as to receive the reward right away (or at the end of quarter or year), or should they refuse to make the sale until the product improves and develop a trusting relationship with regular clients and occasional customers. One's short-term interests, as some have argued in cases of mergers and acquisitions of firms, and the rewards associated with them (percentage of the deal, high bonus), might induce brilliant financial strategists to turn a blind eye to the potential long-term risks or inappropriateness of the deal (and instead they should be consultants who get paid for their expertise with an hourly wage).

Whereas Kurland argues for a broader model for reward systems so that all participants in any exchange are fully aware of what transpires in any transaction and therefore must ensure the trust and good-will associated with every encounter so that future ones will be equitable and fair (similar to the concerns of repeated Prisoner's Dilemma-kinds of situations), thereby ensuring an ethical behavior within the firms (44–46), others emphasize the time horizon of all market transactions and relations (e.g., Travlos and Waegelein 1992). Whether the issue is mergers and acquisitions or other corporate decisions, the argument for fostering a long-term vision and approach is understood, once again, in the long run, to be more beneficial than a short-term decision that might seem at first sight extremely profitable. The longer the horizon, the more likely managers and owners will be more careful in ensuring success (Travlos and Waegelein, 494–495). With this in mind, we can even see some advocates, such as William Greider, who can then explain how the labor force itself, whether unionized or not, might become an integral part of long-term decision-making processes that can help firms in the marketplace by incorporating the concerns of employees, because the employees themselves participate in the processes and investments of their own firms (Greider 2003). This, incidentally, does not have to be as part of what we described earlier as ESOPs, but simply as pension funds or mutual funds that have enormous amounts of money to invest in the marketplace, and that can, optimistically, shape the future of capital formation and the growth of wealth.

Once again, what the literature indicates, even when directed by mainstream economists and not leftist critics, is that the sensitivity I have argued for so far to the mutual needs of corporate stakeholders, as they are called, has transformed into a sensibility: It makes sense to cooperate and collaborate; it makes sense to look to long-run effects rather than to short-term rewards; and that it is prudent and fair to think of everyone involved in the process. In reassessing corporate relations here, one could argue that there is relatively little difference between the reward system in a unionized factory and in an investment bank on Wall Street, because in both cases there are promises made to employees by employers (unless the employees are also the employers) so that certain mutual expectations are brought forth and a variety of strategies are used in order to maximize rewards with or without the unintended consequences we have discussed so far. In other words, from blue- to white-collar workers, the question of the psychological dynamics that engulf a group of employees within the corporate structure eventually leads to some ethical questions that are worth examining (and we shall in the next chapter). As we mentioned in Chapter 1, poor lending procedures for home mortgages might turn a quick profit to some lenders and brokers, banks and underwriters, but when those who were conned into buying houses they could not afford fail to make mortgage payments and default on their loans, the entire system breaks down. Quick profits and the ways the American Dream was sold to naive buyers turn into a nightmare everyone shares, admittedly at different levels of pain.

Unfortunately, the current economic situation in the United States provides us with a laboratory in which to examine some of these claims, because corporate interaction with the public, however one defines this complex of relations, is under fire or is considered to be in crisis. We are, as it is, under the kind of conditions that require change. It is unlikely that the change will be radical, because we follow the pragmatic and Popperian method of piecemeal engineering (incremental changes rather than radical ones), because it is safer, and because it allows revisions along the way. Radical change might be needed, but it will not happen in a stable, though fragile, economy the size of our own. What interests me, though, is not the extent of the actual changes in the economy, but the radical change in the mind-set of the population and the radical transformation of the basic assumptions related to marketplace mechanisms and cycles. We yearn for government intervention almost in the vein of the New Deal of the 1930s, and our yearning is not limited to the unemployed and poor, the uninsured and homeless. Instead, Wall Street mavens argue for government safety nets, such as direct subsidies and indirect guarantees, as if the classical image of laissez-faire has been forgotten, as if the "natural selection" of the corporate world is being replaced with reciprocal altruism and cooperative interactions, as if we are all together in this marketplace. Yes, we are free to exchange goods and services, but our freedoms mean something to all of us only when the freedoms of others are respected and supported, when the benevolence of others, as Adam Smith suggested, is underscored and protected by an impartial spectator. Are we talking about the government or about God? Are we abandoning capitalism as such? Or are we reexamining the structure and framework of the corporate community within the capitalist marketplace? The following chapter will address these questions and attempt to provide some suggestions of how we can overcome standard quandaries and dilemmas, paradoxes and problems, and reach a point where we can educate a new generation of willing and excited participants in the postcapitalist world.

Chapter 5

Personal and Collective Responsibility

It would seem that if we accept the cooperative model outlined so far, if we begin to move from the individual to the community in which she or he lives, and if we realize that great benefits can accrue to each individual because of this model of exchange and interaction, we must not only educate and socialize people but also highlight the sense of responsibility each of us has to all others and to the group as a whole. This way of thinking transcends the economic arena—whether it is suffering a financial crisis or a crisis of liquidity or not—and spills over into any and all other arenas, from the military to the cultural—whether we are at war on two fronts, as we are today, or at peace. It is with this in mind that I also incorporate in this chapter some comments on the significant role religion can play in our democratic institutions, not as a replacement of social and political ones, but as a supplemental one that breaks down personal fear and greed and provides a framework within which to lessen their detrimental effects. In other words, I want to round up my concern for cooperative environments with some practical recommendations and some ways to implement what might be lofty and abstract ideals and ideas. Just as we saw at the beginning of this book, the move beyond ideological extremes is a move to the efficient and morally acceptable pragmatic middle we have experienced over the years in the United States. And when it gets to religious matters, no one is a better guide to the American landscape than William James, whose lecture series of 1901–02, which eventually became *The Varieties of Religious Experience* (1958), broke down the rigid expectation of religious belief.

Adam Smith's appeal more than two centuries ago was primarily predicated on his framing of a relatively smooth market operation that without a central authority allowed personal freedoms of choice and equal opportunities to flourish; likewise, game and rational decision theorists attempted to illustrate how even under conditions of individual egoism, over the long run, with many repetitions and mutual encounters, and certainly without a central authority, some level of cooperation and reciprocal altruism of sorts could emerge (Axelrod 1984, 12). The actual model they examined was the U.S. Senate, where a small group of members (100) interact over a long period of time (6-year terms with more than 90 percent reelection of incumbents) and therefore learn how to cooperate with one another, and how to vote for some measures in order to garner the support of other members (even those opposite of the political divide) in the next round of votes (5–6, 68). The appeal, then, is one that eschews the standard planning models of a central authority that inevitably projects into the future what might be the case and finds itself over- or undershooting, missing its own targets and causing more harm than good, not to mention obliterating any sense of freedom and individual initiative. This is the beauty of the cooperative, capitalist model. As Axelrod concludes:

> The main results of Cooperation Theory are encouraging. They show that cooperation can get started by even a small cluster of individuals who are prepared to reciprocate cooperation, even in a world where no one else will cooperate. The analysis also shows that the two key requisites for cooperation to thrive are that the cooperation be based on reciprocity, and that the shadow of the future is important enough to make this reciprocity stable. But once cooperation based on reciprocity is established in a population, it can protect itself from invasion by uncooperative strategies. (173)

It should be noted in this context that Axelrod includes in this broad statement both social and biological systems of cooperation, and that, as we have seen in the previous chapter, a small illustration of a microlevel group can impact a much larger, macrolevel organization. The seeds are there, and the environment must be fertile enough to allow for steady growth.

Surely this theory of cooperation, as Axelrod calls it, is not the kind of cooperation one finds in the marketplace where firms intend to constrain trade in their oligopolistic or monopolistic behavior—deciding in advance, for example, to raise prices so that the consumers are helpless to find competitive advantages in switching from purchasing from one firm to another. Rather, this is the kind of voluntary cooperation that ends up helping the consumers because economies of scale—where efficiency can be mustered through large-scale investments that require proportionally less start-up costs or management costs—can benefit all of us, as would be the case if the Department of Energy provided funding for basic research on wind or solar energy for all firms to be able to apply without extra charges. This kind of "big-push," as Rosenstein-Rodan called it, would push all energy producers over the threshold of initial investment in basic technoscience (and thus eliminate barriers to entry into this market) and provide the basic knowledge (through coordinated government subsidies and funding) that could then be applied more cheaply by all potential energy producers. It goes without saying, then, that consumers would be the primary beneficiaries (as was the case with the GPS).

This view of emergent cooperation from conditions of utter self-interest or mutual disinterestedness seems too optimistic, almost fantastic. But if society is viewed predominantly as a cooperative effort that is mutually advantageous, as all social contract theorists have agreed over the years, then perhaps it is not too outlandish or fantastic. As has been their quandary, these theorists always straddled a thin line between an ideal theoretical construct and the empirical data available, between a prescription of how things should be in an ideal world and the way things actually are in the real world. Some, of course, mixed the two approaches, and others were more careful to acknowledge that one cannot easily move from an "is" (how a situation is in fact) to an "ought" (how one would like the situation to be), as philosophers explain this fallacy. One of the more recent theorists in this tradition is John Rawls, whose 1971 *A Theory of Justice,* provides a comprehensive view of these issues. He is of particular interest here because, as he says, "we have to ascertain which principles it would be rational to adopt given the contractual situation. This connects the theory of justice with the theory of rational choice" (17). Instead of reviewing Rawls's full model of justice, it is sufficient here to stress two elements that make it relevant: first, that his conceptual setup emphasizes the "ignorance" of the participants (of where they might end up once they joined the group) who are in the original position of choosing to join the group (and are in a position similar to the prisoners in their dilemma), and second, that the two principles that they adopt are set up to be the most efficient economic and social arrangements (out of which justice and fairness can be guaranteed) (ch. 3). The other reason to mention Rawls in this context is in order to bring in the moral dimension that permeated the initial discussion of Adam Smith in the first chapter and that should occupy us in this last chapter.

Cooperation in New Corporate Structures

Just as Freud made the parallel between individual behavior in terms of the pleasure and reality principles and civilization as a whole (and helped draw conclusions about our growth and development), so does Thomas Malone make the parallel between the organizational development of the human race and the transformation of corporate organization. In his schema, human societies evolved from bands that were independent (hunters and gatherers) to kingdoms that were centralized and eventually to decentralized democracies (Malone 2004, 16ff.). For him, the main impetus and methods that ushered in these transformations were linked to the cost of communication, from immediate verbal and gestural interaction to more broadly available modes of reading and writing and eventually computer technologies. Likewise, "the major changes in how businesses were organized throughout history echo the changes in how societies were organized" (28ff.). Small independent businesses found it beneficial, once they grew to a certain size, to become centralized corporate hierarchies that could take advantage of economies of scale and other efficiencies, and eventually turned into decentralized networks both within the organization and outside of it when outsourcing. The ideal of decentralization encompasses for Malone a variety of values worth pursuing, such as a general sense of freedom all the way to the participation of those involved in decisions that matter to them (5). If indeed the cost of communication is the pivot around which changes and transformations take place, then it makes sense that as that cost decreases, the need for centralization decreases and the impetus for decentralization increases.

Malone's thesis is both descriptive and prescriptive insofar as he wants his analysis to be part of the agency for change: "We need to shift our thinking from command-and-control to coordinate-and-cultivate" (11). Coordination and cultivation include the areas in which commanding and controlling need to take place, but allow for a wider range of organizational methods. The cultivation of individual initiatives turns individual participants into stakeholders, namely, people who care about what is happening around them, and as such, people who are willing to take risks on behalf of the firm with a kind of personal responsibility and integrity, creativity and risk-taking akin to that of entrepreneurs who work alone. The technology, Malone reminds us (just as Benkler has earlier), is set up to encourage cooperation and the exchange of ideas in a manner that solicits all contributions, however large or small, misguided or informed. In this kind of environment, argues Malone, the decentralization does not become too fractured or chaotic to overwhelm the smooth-running of the corporation, but instead allows for the cultivation of extra-economic values we mentioned in the previous chapter. We cultivate a culture of trust and openness, of full disclosure and ongoing learning, so that individual workers are not hiding behind policies and role-playing that eventually can bring a corporation to a standstill in terms of innovation and growth.

The organizational structure that Malone recommends is evolving as we speak, and it will become the standard for the future. Because of this, it helps shed light on some moral questions raised by philosophers and ethicists concerned with the definition of corporations as "persons" so as to attribute moral responsibility to them. In Michael Boylan's collection of essays by leading scholars in the field, two views are contrasted. One suggests that "organizational agents such as corporations should be no more [or] no less morally responsible (rational, self-interested, altruistic) than ordinary persons" (Boylan 2001, 43), and the other denies this attribution and insists that "it is humans only, not corporations, who feel fear, shame, and pity" (56). The moral issues related to corporate behavior, as we have seen so far, are embedded within a market framework that induces them to behave well or poorly, that provides incentives to compete or cooperate, cheat or be trustworthy. If we follow Milton Friedman's interpretation of Adam Smith's invisible hand, then we are bound to restrict the corporate horizons of decision-making processes to economic factors out of which moral values, such as freedom, will come without the interference of a centralized authority. By contrast, we are reminded that the likes of John Kenneth Galbraith have suggested that "the regulatory hands of the law and the political process rather than the invisible hand of the marketplace turn these objectives [of corporate responsibility] to the common good" (48). Moral rules and expectations are then embedded in a system of rules that permeate the marketplace and eventually affect the way decision-making processes must be undertaken within the corporate structure.

Perhaps what confuses and justifies some to argue that the corporation "behaves" like a person and therefore can be viewed as if it were a moral agent is the fact that there is such a thing as "corporate culture" that is similar to a person's "character" and because of this becomes "the enduring source of motivation and direction" (55). The corporate culture, as we can see in many cases, cares about its employees and provides health insurance and subsidies for further education (Starbucks, for example, does this) or sees itself as a custodian of the environment and encourages recycling. But is this "culture" more than a management tool to incentivize or improve productivity? Are the "values" espoused by the corporation indeed the same as the ones individuals carry from childhood or rather instrumental devices to influence the behavior of employees or score marketing points with potential consumers? The issue is not whether corporations are like people, that is, endowed with the same moral agency that makes corporations culpable morally the way people are, but rather the kind of consequences their actions have on others. It is in this sense that we could fruitfully conclude that "ethical categories are relevant, whether one acts on one's own behalf or as agent for a corporation. And this is so, not because corporations are like moral agents, but just because corporate decisions, like personal decisions, can have serious consequences" (57). It is from this perspective, then, that most standard texts in business ethics acknowledge the significant position corporations have in our society and the extent to which they are responsible for their actions both internally (hiring procedures, fair compensation, safety, free speech, discrimination, and the like) and externally (pollution, deceptive marketing, etc.), and because of this must be understood beyond the legal constraints of regulatory oversight (e.g., Beauchamp and Bowie 1983).

Whenever we think of the emergent moral qualities of market forces as both an ideal and a lived reality, we must be cautious, if not skeptical, and realize that sometimes it behooves us to set up structures and procedures, rules and regulations that ensure and protect, nurture and cultivate such behavior and attitude. This is exactly what Smith meant when he envisioned the impartial spectator as such an omnipresent entity whose very existence, even if only in our own minds, would have the effect of steering us clear from mischief and bad behavior, from taking advantage of others so as to benefit ourselves. To some extent, one could argue, this is exactly the social role played by religion and the concept of God, with images of heaven and hell, behavior and its consequences, punishment and reward, good and evil. Had we failed to invent these powerful mechanisms to keep us straight, what sort of world would we live in? The theorists cited earlier who believe in the emergence of cooperation from egotistical beginnings presuppose some time horizon that induces forward thinking and the thinking of consequences. It was Nietzsche who reminded us that without the notion of promise—saying now something about the future—there is no morality. Religions, with their notions of afterlife, are incredibly literal and powerful in forcing us to think about the consequences of our actions, and in case we think we can get away with anything, they postulate an omnipotent God who can see all, remembers all, and whose judgment we must fear for eternity. Let us follow Nietzsche's argument for some length:

> the man who has his own independence, protracted will and the *right to make promises*—and in him a proud consciousness . . . of his own power and freedom . . . This emancipated individual, with the actual *right* to make promises, this master of *free* will, this sovereign man—how should he be not aware of his superiority over all those who lack the right to make promises

> and stand as their own guarantors … how this mastery over himself also necessarily gives him mastery over circumstances, over nature, and over all more short-willed and unreliable creatures? … The proud awareness of the extraordinary privilege of *responsibility,* the consciousness of this rare freedom, this power over oneself and over fate, has in his case penetrated to the profoundest depths and become instinct, the dominating instinct … this sovereign man calls it his *conscience.* (Nietzsche *GM* 1967, 59–60)

Nietzsche, the arch-individualist, explains in his hybrid fashion the origins and evolution of individual responsibility, the sense of conscience that developed with the capacity to control oneself and observe one's superiority over the rest of the animal kingdom. This, in due course, leads him to his image of the unique and highly qualified individual as an *ubermensch*—the one who transcends the rest of society and thinks for himself (not herself for him) and eschews all societal pressures. In doing so, the individual is able to reject the herd mentality of the group, the unreflective assent of the many to the ideas of a few. Regardless of generations of interpretations of Nietzsche's ideas and their meaning (including but not limited to their influence on the Nazis), we should appreciate in this context the radical departure and critique provided by him to whatever has been claimed so far in this book. It is also in this vein that Nietzsche has proposed to think of the role of religion in our society. Instead of the popular understanding of Nietzsche's exposition of the literal death of God (Nietzsche 1974, sections 108, 125, and 343), there is a more fruitful appreciation of Nietzsche's concern with the metaphorical death of God, or more precisely, a hypothetical admonition for us to rethink what our moral life would be like if we did not have God in our midst.

Nietzsche's critical contribution to our contemporary conception of the role of the individual in society and the ways in which individuals interact with others and form communities undermines some of the more optimistic and idealistic conceptions of the cooperative nature of human interactions under the watchful eye of God. Whether we agree with Kenneth Arrow's conclusion in his 1951 *Social Choice and Individual Values* that "collective rationality in the social choice mechanism is not then merely an illegitimate transfer from the individual to society, but an important attribute of a genuinely democratic system capable of full adaptation to varying environments" (Arrow 1963, 120), or Mancur Olson's 1965 classic *The Logic of Collective Action,* in which he explains the kind of associations among individuals that make them effective in influencing public policy and in maintaining, through firms, an organized pressure on governments and the marketplace (Olson 1971, 143), we still have Nietzsche's words to contend with. It is not that Nietzsche could not conceive of free associations among individuals or how certain confluences of interests would induce individuals to form lobbying groups to enact particular policies and laws, but rather that he valued more profoundly the skeptical and critical mind of the individual who would, at the end of the day, be accountable to what is being said, responsible for his or her actions, and able to avoid losing his or her will in the collective will of the community. Books, such as *Hitler's Willing Executioners: Ordinary Germans and the Holocaust* (Goldhagen 1996) could not have been written if Nietzsche's taunts were taken seriously: His was not a way for the individual to eschew moral responsibility because of some personal transcendence, but rather to eschew the herd mentality of a community that has gone mad or that has lost its moral compass. It is within this context that we have to revisit the behavior of individuals and firms that for financial expediency found nothing wrong in the exploitation of concentration camp inmates as slave labor during the Holocaust. The German marketplace during the Nazi era was engulfed in a legal envelope that licensed immoral activities. Should the great industrial firms of the era that benefitted from Nazi policies be held accountable? Should we expect them to have behaved morally? Or are they to be exempt from the kind of moral scrutiny accorded to individuals? If Smith's impartial spectator fails to stand guard, and if God has left the human stage, would the individual rise to the occasion and uphold some basic human values despite the odds? With these questions in mind, we can move to the next section and examine the essential role of government intervention in the marketplace.

The Buck Stops Here: Government Intervention in the Marketplace

It is commonly thought that President Harry Truman originated the phrase "the buck stops here." But, as Fred Shapiro reminds us, though Truman received a "'gadget' displaying these four words made at the Federal Reformatory at El Reno, Oklahoma, mailed to him in 1945 and then displayed by him on his desk," the actual first appearance of the phrase was to be seen in "*The Reno Evening Gazette* of October 1, 1942, with a photograph of a sign clearly reading "The Buck Stops Here" on the desk of Army Col. A. B. Warfield" (Shapiro 2008, 16). Whether on the desk of the president of the United States of America or that of an Army Colonel, what is at issue, of course, is the declaration that the ultimate responsibility to whatever happens in this country (or firm or world) lays at the feet of a particular person who is in charge of making decisions and correcting mistakes. One cannot simply feign ignorance or lack of authority and therefore lack of responsibility; at some point someone must stand up and be accountable. But who are we accountable to? Is it to our fellow citizens who elected us, or to our superiors who promoted us, or indeed to God who watches over us? As we know from the American experience, it is because of these questions that an incoming president takes the oath of office (of the presidency) swearing on the Bible just as we swear on the Bible to tell the truth, the whole truth, and nothing but the truth, so help us God in courts of law. Nietzsche was right to ask, but what if God is dead? Who then will you feel accountable to? Will it suffice for you to feel obligated to the social contract you implicitly agreed to with your fellow citizens?

The beauty of the marketplace, as we have repeatedly observed, was predominantly consumed with the ability of numerous people to work in concert without the guidance or oppression of a centralized authority; it is the same beauty we expect to find in democracy, where individual freedom and equality are never compromised, where the law is transparent, and where fairness and justice are upheld. So, before we examine the conditions under which government interference is necessary and welcome, we should briefly review the evolutionary view of democracy and its reliance on economic factors, as ably presented here by C. B. Macpherson. According to him, there have been four models of democracy that have prevailed over the past two centuries, transforming themselves from one to another, at times peacefully and at times with some struggle and rancor:

> The first model I call *Protective Democracy:* its case for the democratic system of government was that nothing less could in principle protect the governed from oppression by the government. The second is called *Developmental Democracy:* it brought in a new moral dimension, seeing democracy primarily as a means of individual self-development. The third, *Equilibrium Democracy,* abandoned the moral claim, on the ground that experience of the actual operation of democratic systems had shown that the developmental model was quite unrealistic: the equilibrium theorists offered instead a description (and justification) of democracy as a competition between elites which produces equilibrium without much popular participation. Its inadequacy is becoming increasingly apparent, and the possibility of replacing it with something more participatory has become a lively and serious issue. So this study goes on to consider the prospects and problems of the fourth model, *Participatory Democracy.* (Macpherson 1977, 22)

As far as Macpherson is concerned, given the assumptions with which liberal democracy started its first phase or model—concerning utility-maximizing individuals and their collection of conflicting interests—it made sense to have a central government that could adjudicate and regulate, govern and protect individual interests and rights. These assumptions were based to a great extent on observations of market behavior and did not reflect what the second phase or model tried to do, namely, setting in motion "a moral vision of the possibility of the improvement of mankind, and of a free and equal society not yet achieved" (47). The marketplace is not set up in a manner that ensures that we all end up equal in the distribution of wealth or income, but rather that we have equal opportunities and that our freedoms will be curtailed; but if society has a vision of itself that transcends market forces, then it can provide the methods and mechanisms to bring about changes or improvements. Private property, for example, could bring about unjust distribution, but capitalism as such would not thereby be condemned. It is with this in mind that political theorists went about to provide guidelines and mechanisms (political parties, minority rights) to guard against the economic factors turning into political inequities and to ensure public education as a means to equalize opportunities (55–69).

The third phase or model tried to overcome the shortcomings of the previous phases or models insofar as it recognized three elements that must be taken into account: the pluralism of its constituents, the elitism of its leaderships, and the equilibrium that is maintained "between the demand and supply of political goods" (77). The optimal distribution of political energies and goods, as Macpherson calls them, parallels the economic optimality of the marketplace insofar as "politicians and voters were assumed to be rational maximizers . . . operating in conditions of free political competition " (79). Macpherson admits that though we might choose to call this political phase or model, imbued as it is with money from unequal resources and personal positions, "consumer sovereignty," the actual "aggregate of such unequal consumers is not evidently democratic" (87). He echoes here the kind of complaints we hear about lobbying efforts and the purchase of elections, the undue influence the wealthy have over policies and over the entire political system. When it comes to recommending the next phase or model of democracy—participatory democracy—Macpherson realizes that large countries like ours must adopt more indirect methods of representation, and in doing so insist on the accountability and responsibility of politicians. But the citizens have to change as well. They must see themselves no longer as consumers, but rather as members of a community in which they care about and cooperate with each other, and economic and social inequalities must be reduced, so that undue influence and power do not remain in the hands of the few rich in opposition to the many poor. These changes, says Macpherson, are unlikely to take place (99–100). Yet, his optimism for the development of some mechanisms and institutions that could help bring people's concerns to the fore and provide numerous platforms for public debate is laudable. Perhaps what is needed is an educational equalizer that would remind us all about Rawls's conditions for social contract as well as the wonderful outcomes available in any game-theoretical constructs that can be readily applied to councils and small groups, neighborhoods and workplaces.

The fact that for the longest time liberal democracy based its own vision on the marketplace, and the fact that the marketplace is not necessarily the best model for democratic institutions (as we have seen in Chapter 1 with Klein's critique of Friedman's model), would leave it open for us to rethink the kind of interaction between the economic and political domains. If the political domain both protects our ability to freely interact in the marketplace and curtails our inappropriate behavior (in terms of exploiting or hurting others), then its own functioning should be neither a reflection of market-like behavior nor a license for the economic domain to dominate the political. Instead, the political domain must draw its inspiration from the moral domain and use its legal institutions and framework as a final arbiter and promoter of social values. It is with this in mind, then, that the next section will deal with a European model of social democracy that brings the religious domain into the heart of the political domain without thereby undermining individual rights and freedoms, but with a strong sense of personal responsibility.

Before we move to the next section, though, we should mention briefly the American New Deal of the 1930s and the Marshall Plan after World War II as important benchmarks where government interventions in the markets were undertaken with obvious mixed results, as critics have argued ever since. There are, of course, political realities or necessities that prompt government action, such as threats to national security or great natural disasters. In those cases the executive branch is expected to jump into action and to provide immediate relief to the public, mobilizing the military forces or the National Guard or any other available resource. But when it comes to the economy, the picture is a bit murkier, because the effects of a crisis or catastrophe in the economy are not as visible, and even when they are, they might be unevenly affecting the population: A flood or hurricane does not discriminate between the houses of the rich or the poor, but the weakening of the currency and increased unemployment are not equally shared by the entire population. Assuming for a moment that one is capable of assessing that an economic downturn is indeed taking place and that it has devastating effects, such as those suffered in the Great Depression of the late 1920s and early 1930s, what should be done? More specifically, what model or blueprint should be followed? If all we work with is the classical and neoclassical models of capitalism, the answer would be: Do nothing! Short-term market cycles are expected, and in the long run the market will find its "natural" equilibrium: Inflationary pressures will abate, unemployment will fluctuate until full employment is reached (labor costs will subside and more workers will be hired), and the like. If there is a liquidity squeeze in the financial markets, an artificial infusion of funds might provide immediate relief but will eventually cause inflationary pressure detrimental to the self-correction of the financial markets. In short, there is a deeply held belief, one can even call it faith, among die-hard capitalists, that the market will correct itself despite any upturn or downturn felt in the present situation. This also means that any intervention whatsoever would aggravate the natural course of things and therefore should not be undertaken. Incidentally, this faith in the natural course of the markets is akin to the view of the natural course of the flow of rivers, for example, that environmentalists argue should not be disturbed because any such disturbance (dikes, dams, watering beds) would bring about devastating results (floods, cessation of wildlife, elimination of fish species).

By contrast to this view of the so-called natural course of market economies that should not be disturbed, there are other views that describe markets differently and therefore provide alternative views of potential intervention. Karl Marx, for one, saw markets, especially those within the capitalist mode of production, distribution, and consumption, as lopsided economic arrangements in which the few rich exploit the many poor. Allowing this to "naturally" continue is, from his perspective, both theoretically preposterous and morally wrong: There is nothing natural about market forces, because they are artificial constructs justified post hoc, and leaving them as they are would exacerbate the situation and cause harsher hardship on the powerless poor. The only reasonable approach, then, would be a revolution that would reconstitute market relations and interactions and ensure fair distribution of resources to everyone who participates in the market. This brief overview at least explains why nonintervention from a Marxian perspective is the wrong option, or why political intervention is recommended.

But one need not reject the entire capitalist framework in order to recommend immediate intervention. The British economist John Maynard Keynes, in his celebrated 1935 *The General Theory of Employment, Interest, and Money,* provided a picture of the capitalist market that recognized how the circulation of money in the economy tied together a variety of elements or factors that were therefore dependent on each other. Starting with all the principles of the neoclassical model, Keynes understood that there is a delicate balance among all the variables that were measured or treated separately but that should be considered as affecting each other. For example, if there is an increase in unemployment for whatever reason, more laborers would have less money to spend. If less money is spent in the economy, hence less demand of goods and services, market prices will go down because the goods and services that are already supplied will not be bought at the brisk rate they were before, and in order to get rid of them the producers and merchants will decrease the prices as much as possible. The reduction in prices will affect the suppliers (manufacturers) so that their profits would disappear or they would lose money (especially when high inventories become too expensive to hold for a long time, not to mention perishable goods that would spoil and go to waste). When producers (suppliers, manufacturers, growers) lose money, they try to cut their costs, the most variable of them being labor, and they begin laying off their workers (it is more difficult, and it takes longer to close factories or sell land and equipment). From increased unemployment we have reached a point of an even greater increased unemployment. Similar analyses can be mustered for the financial markets, whether one begins with interest rates, the liquidity of money, saving rates, or the printing of money by the treasury (Keynes 1964).

Unlike the Marxian picture of the struggle between two classes and the utopian goal of a classless society with efficient and prosperous markets, the Keynesian picture provides an analysis of the nuts and bolts of the capitalist machinery such that any breakdown will not necessarily lead to a revolution but rather to a state of equilibrium. While Marx wants to transform the markets, Keynes seems to want to fix them. Though not all of the main players in the conception and implementation of the New Deal of the 1930s were Keynesians (theoretically, ideologically, and economically speaking), the Keynesian model looms large over their actual work, because what they saw as essential was a political will to intervene in the faltering economy. Given the grim picture of the Great Depression, when unemployment rates moved from 4 percent to 25 percent between 1929 and 1933, and manufacturing production reduced by a third, when the stock market crashed and there was a run on banks, something had to be done. Incidentally, when about four thousand banks across America were permanently closed or merged with larger ones within one year (1933), we notice what some social scientists call self-fulfilling prophecies: The more people thinking that their money is not safe in the bank's vault and therefore demanding to withdraw it, the more likely the bank will not have sufficient funds on hand (because it lent some of the funds) and therefore will be more likely to collapse. This run on the banks exacerbated the financial crisis of the time, and a general mood of panic permeated the markets.

President Franklin Roosevelt was responsible for what we now call the two New Deals, one in 1933 and one in 1935–1936. The first provided banking reform laws, emergency relief programs, work relief programs, and agricultural programs, and the second was a more comprehensive set of programs, including union protection, Social Security, and aid to farmers. Some programs were struck down by the Supreme Court at the time as being unconstitutional, and some have remained part of the American economic and political landscape. Without going into the details of some of the programs initiated as part of the New Deal, it might be helpful to recall that between 1933 and 1935, the National Industrial Recovery Act that was passed by Congress in June 1933 created the Public Works Administration, which in turn spent $3.3 billion with private companies to build close to thirty-five thousand projects around the country. Unlike the February 2008 Economic Stimulus Act of the Bush Administration that provided $152 billion in small increments of $600 to $1,200 given directly to individuals (and whose effect has been so far marginal), the New Deal infused funds directly into the economy, funding projects and paying the private sector to pay laborers to carry out these projects, greasing the wheels of commerce along the way. The recovery that followed the New Deal restored employment to its pre–Great Depression era status, and only after World War II showed tremendous increase into an era of economic prosperity that lasted all the way into the 1960s.

The aggressive posture undertaken by the Roosevelt Administration was unprecedented, and its main legacy, for better or worse, has been the new role of the federal government as a guardian of the least advantaged in society (as Rawls calls them) and as an arbiter of competing interest groups (as Olson perceives group interaction in society). The federal government ever since has been expected to act rather than remain idle in the face of economic turmoil. The problem, of course, is how to assess the situation, whose advice to listen to, and how to ensure that the given remedy or medicine does not kill the patient. In retrospect, the New Deal has been criticized from every facet of the political spectrum, from the far left to the far right, from conservatives and liberals alike. For the leftists it has been a squandered opportunity to nationalize the banking industry and control the labor markets, considering union formation and minimum wage were only small contributions to the redistribution of wealth and income in society. For the conservatives, the very fact that the federal government intervened smacked of socialism if not outright fascism, because the outcome had minimal effects on the health of the economy (which took another decade to fully recover). Whether the New Deal preserved the ills of capitalism or healed and transformed them will be debated for generations (e.g., Hazlitt 1977). What remains true either way is the fact that after the New Deal more individuals and groups feel more comfortable to use their political power to press for the consideration of their group interests in the sense that Macpherson has described participatory democracy. Public expectation of the federal government has changed, and there is a greater sense that elected officials are responsible for the well-being of their constituents. The power to tax turned into an obligation to invest in public works and services, in tangible and visible ways that would have direct effect on people's lives.

The federal government has been made to realize that it can do something about the economy outside of protecting a laissez-faire posture, that it can and at times should intervene in the markets, shoring up confidence and providing a guiding hand for reforms. As contemporary economic conditions have deteriorated in America and around the globe (because of the interdependence of the global economy), we are reminded of some of the New Deal's programs that are still with us, such as the Federal Deposit Insurance Corporation (that insured up to $100,000 and as of 2008 insures up to $250,000 in any bank account, even if the bank declares bankruptcy), the Social Security Act, because of which both employers and employees contribute to retirement benefits, and the Securities Act that codified standards for stock sales and ownership, private sector compliance with public disclosures of their financial reporting, and others. As a guardian of public trust, the federal government, with congressional legislative support, has been made responsible for the collective health of all the participants in the marketplace. Because of this, the presumed separation between the market and the political area has been understood not only to be illusive, but outright inappropriate.

Perhaps we should mention at this juncture the Marshall Plan that came into being after World War II and that was intended to help restore the economies of the European community, more specifically the economies of our allies in Europe. American foreign aid (the official name was the European Recovery Program) was about $13 billion at the time, and it was used by the Europeans primarily to purchase raw materials and manufacturing and agricultural goods from the United States. Just as in the case of the New Deal, there was an ideological or theoretical framework that was at the heart of this reconstruction effort, undertaken on behalf of the wealthy and benevolent war victor, the United States, to help poorer allies and even the vanquished Germany. But that ideology would not have carried the day without some foreign political will to contain the growing power and potential hostilities of the Soviet Union, with an increased alarm of the communist threat to world peace and the global prosperity of capitalist markets. Moreover, it should be noted that all foreign aid is in fact domestic subsidy, because the recipient states are obligated to buy the donor's goods; they are not given cash to spend anywhere they want on anything they want, but instead are given credits to spend the donor's funds on the donor's products. This, incidentally, is the main reason foreign aid has always been supported by Congress, because its members make sure their own states are the ultimate recipients of that aid. Once again, the examples of the New Deal and the Marshall Plan, regardless of the criticisms about their effectiveness and consequences, are provided here as illustrations of the growing sense of responsibility of governments that evolved in the twentieth century.

When we speak of "The Buck Stops Here," we speak of the responsibility of government agencies and their leaders (and if possible of the international community) to act swiftly and wisely on behalf of the people. This urgent sense of responsibility can be enhanced only if society is taken to be a collection of cooperative elements and constituencies whose interdependence might be missed or misunderstood when the prism of perception is, as it inevitably is, limited and confined. Responsible leaders can see the big picture, the broader spectrum of society and its markets, its needs and wants, its dreams and aspirations, and all the alternative ways in which they can be met. The required skill set, on this view, is the ability to see simultaneously the broad picture and its details without being overly distracted by interest groups whose potential benefits will hurt the rest of society. The delicate balancing act of the marketplace envisioned by capitalist theorists might require the steady hand of leaders whose integrity and wisdom are judged posthumously. As we saw at the end of the first chapter, how the Federal Reserve Board intervenes in the current financial crisis will be seen from this vantage point: Is the provision of additional liquidity helpful or detrimental? Should investment and commercial banks be allowed to disappear (as they did in the 1920s) or should they be rescued? Should people lose their homes or find government relief? Answering these questions might require markets to be more limited in their scope, just as it might require political institutions to be confined to only deal with certain aspects of our lives. Perhaps this is where other institutions, religious or social, cultural or educational, come into play and garner larger roles and additional responsibility for coordinating individual activities and interactions.

Building Communities to Preserve Identity

Among contemporary political theorists, Sheldon Wolin stands out not only for his sharp analysis, but also for his warnings against the encroachment of corporate power into politics. In his 2008 *Democracy Incorporated* he picks up some of the themes discussed here and has the following assessment of what happened to the New Deal programs of the 1930s:

> For all practical purposes the war [World War II] marked the end of the first large-scale effort at establishing the tentative beginnings of social democracy in this country, a union of social programs benefitting the Many combined with a vigorous electoral democracy and lively politicking by individuals and organizations representative of the politically powerless. (xv)

Whether or not we agree with Wolin's definition of social democracy and with its desirability as a political arrangement of the inevitable power struggle of individuals within a democracy, we can readily admit that the New Deals were indeed a large-scale, and in fact widely popular (given congressional voting) programs that were more closely akin to programs and policies found in the contemporary welfare states of the Scandinavian peninsula. Wolin notes that in the American liberal version of social democracy, the New Deal represents a brief period in which "unapologetically, public debate and discussion centered on matters such as planning" (20), whether of resources, labor, agriculture, financial institutions, and numerous regulations associated with each one of them. However poorly these programs might be judged retrospectively, they all demonstrated a willingness to openly coordinate the efforts of many diverse groups to ensure improved material conditions for all. This was not done outside of public view, as the Soviet inner party rulers did, but in plain view, with congressional hearings and votes, with elected officials representing the will of their constituents, and knowing full well that if public sentiment changed, they would be out of office. In displaying civic commitment and a willingness to try new ways to ameliorate pain and suffering, the programs and acts of Congress proved to be legitimate instruments of democracy, rather than self-serving dictates of a dictator or king. Though the Smithian model, in Wolin's view (122ff.), is based on a "miracle" (wherein social and economic and political order emerges spontaneously from the chaos of individual wills), it has provided the ideological grounding of contemporary American capitalism and democracy, and thereby has brought about what he calls "inverted totalitarianism," a situation in which a small group of corporations controls the political power and dictates self-serving policies (like the invasion of Iraq in 2003). The problem is not merely the usurpation of power by corporate elites, because this potential hazard was envisioned by earlier thinkers (all the way back to Smith himself who warned against oligopolies and monopolies), but the fact there is a power vacuum and lack of strong democratic institutions to guard against such encroachments. Under these conditions, questions of legitimacy—who deserves to make decisions for the public or enact policies or regulate?—are overlooked, if not completely ignored.

Wolin's concern is political in nature—to discard and expose the particular policies of the Bush Administration—but it cannot avoid dealing with the economic conditions and power relations that shape our political power and the institutions that contain it, because they are so interwoven. Are we seeing in the name of decentralized economic ideology also a call to decentralize political authority and undermine the legitimacy of the state? On some level, the answer is definitely yes, as libertarians and anarchists would argue from the two opposite extremes of the political spectrum. But their political theories are at heart beholden to one major assumption that they fail to acknowledge: In order to have a minimal government (central authority), each individual must assume personal responsibility for all actions. Is this Smith's original sense of benevolence? Is this Rousseau's sense of pity and compassion we all share? Is this what Rawls had in mind with the veil of ignorance that we share in the original position (not knowing how our choices will affect us personally before deciding to join society and thereby observe its laws and rules)? These thinkers worked from a certain set of assumptions about human nature and what could be done in order to overcome its weaknesses and cultivate its strengths. As we saw in earlier chapters, assuming that fear and greed fundamentally govern our behavior might turn us into less congenial members of society than assuming other characteristics. Even if we were to assume that humans by nature are neither good nor evil, but are individually constructed as a tabula rasa (clean slate) who are influenced by their environments—from parents and churches to schools and friends—we would still have to think about noneconomic variables that affect our economic and political behavior. It is here where education, as John Dewey for one saw it, is intimately connected to how we constitute and operate and are affected by our political institutions (Dewey 1916). In this Dewey and others echo the concerns of

Socrates and Plato in the *Republic,* where guardians are put in place and where the philosopher-king provides the critical thinking tools with which to govern justly. What about our religious backgrounds?

Modern democracy, just like modern science before it, eschews the vestiges of superstition and divine authority in the name of individual freedom and equality, reason and rationality, critical investigation and the primacy of empirical evidence. Courts of law behave like scientific societies, and legislative activities are scrutinized with the same rigor as the experiments undertaken in laboratories. Democratic institutions are designed so as to protect the weak from the powerful to allow them the equitable enjoyment of whatever the state can provide, especially when relief is needed in crisis situations. This view of civic work and public responsibility has been waning in the past few years, so much so that American presidents in the past few administrations have openly called for the involvement of faith-based organizations in social programs that historically were left under the purview of the state. Lew Daly, an academic turned minister, wonders how democratic political institutions interact with religious ones in their fight to eliminate poverty as a way to reexamine the legitimate roles of both of them. The controversy about the encroachment of religious organizations into the political and social realm has been fueled by different sets of arguments.

Some have argued against the program's constitutionality, by which they mean, the trespassing of the constitutional divide between church and state as far as funding is concerned. It is inappropriate, according to this line of argument, to finance churches out of the general federal budget, which is funded by taxes (Daly 2006, 4–5). This concern, as Daly informs us, has been dealt with in the 1988 landmark ruling of the Supreme Court (*Bowen v Kendrick*), where the constitutionality of federal funding to churches has been upheld under the theory of neutrality (between religious and nonreligious providers of social services). A second set of arguments has been focused, according to Daly, "more cynically, on the threat of political patronage and vote-buying in poor communities" (5). The fight on poverty (President Lyndon Johnson's infamous War on Poverty comes to mind), in this context, is local, and as such can be a fruitful tool with which to influence the local residents to vote in a way that would ensure the largess of the political machine that feeds them. The third set of arguments is more concerned with claims regarding the superior efficiency with which the fight against poverty is conducted once in the hands of religious organizations rather than government agencies. However, "there is little scientific evidence that social services provided by religious organizations are more effective than those of conventional nonprofits, let alone so effective as to warrant a major government initiative" (6). And finally, as Daly reminds us, "the most controversial aspect of charitable choice is that it allows churches to discriminate on the basis of religion in hiring for federally funded programs" (26). This is true even when church-employed individuals are dealing with a homeless shelter or a soup kitchen as opposed to ministering to soul-searching.

Against this backdrop, Daly rightfully questioned this Republican initiative. As an aside, he reminds us that "since Lyndon Johnson's War on Poverty in the mid-1960s the poverty rate has remained essentially unchanged, under Democrats and Republicans alike" (7). This is a scary thought indeed, because "as of 2001, charitable choice applied to programs disseminating nearly $22 billion in federal funds annually" (26). This amount is presumed to increase to almost $50 billion annually if the current administration can change some additional federal rules (39). What is even more alarming than the amounts themselves and the power they embody in transforming the welfare landscape is the fact that these initiatives can be seen as "an effort to hollow out the welfare state by relinquishing its public authority to religious groups" (32). One could easily add to the concern with public authority here the concern with public duties or responsibilities—understood in Macpherson's or Wolin's sense—as the fundamental characteristics of modern, democratic, welfare states.

In light of this, and in light of the basic human and religious beliefs that poverty should be "fought," if not eliminated, Daly shifts a bit the focus of the criticisms listed previously, and pursues a different line of questioning, one that inquires "whether policies claiming religious inspiration are faithful to the teachings they invoke" (9). The point, then, is not to question this or that particular policy, worry about this or that boundary crossing between church and state, but rather figure out more deeply if one's ideas are in fact the basis of one's actions (and policies) and if they are rooted in religious traditions.

Daly's conclusion, to be sure, is not limited to the obvious constitutional predicament we are facing today in regard to the use of executive orders as a substitute for the legislative process; neither is it limited to the obvious invocation of Christianity and the role of Jesus Christ in one's political, social, and economic life as part of this (or any previous or future) administration's proclamations; instead, the Bush Administration was being taken to task for not being Christian enough, for not appreciating how good Christians, like the Dutch Abraham Kuyper, have manifested Christian principles in the very administration of their political structures. Perhaps what is at stake in this discussion is neither Christian principles of charity nor the divide that should or should not separate church and state, but rather the very relationship between the state and the religious organizations found within it. What emerges from this book is a deep commitment to theocracy, the view that theological principles must guide all political arrangements, and in this particular context, a Christian one. As Daly reports, "the state, by transferring resources to these [religious] groups while relinquishing powers of governance over them, fulfills *its* ordained role as a support system that enables religion to do its work" (33).

Daly spends the bulk of his book on the promotion of Kuyper's theological ideology and its implementation in the development of European Christian Democracy (23ff.). It seems that Daly is most impressed by the ease with which European democratic nations have adopted a Christian theology and inserted it in the heart of their political institutions instead of following the American political model that is prima facie devoid of any religious principles and commitments (or if it has any is more flexible in the religious sense of what counts as the proper religion in William James's sense), but that in fact is fully Christian in every facet, from federal holidays to the motto on the currency. So, when he contextualizes this development in Europe, he has this to say:

> Subsidiarity [placing limits on state functions and assigning a positive role to religious organizations (54)] and sphere sovereignty emerged in the late 19th century, when socialist movements and the rise of liberal welfare states in Europe threatened religious power in key social domains including education and welfare. Both doctrines assert self-rule for religious organizations within the liberal state and require government to help them fulfill their public purposes without interference. (23)

According to Daly, what made this situation appealing was the rejection of either a socialist model of a strong central state or the free-for-all model of uncontrolled market-driven capitalism. "Kuyper was both anti-socialist and anti-individualist" (48) insofar as he believed that "natural communities" (55) to which people belonged were neither rooted in a secular nation-state nor mere associations of individuals who maintained their rights in the terms of the French Revolution.

Daly summarizes Kuyper's ideology as a view of an "organic order without hierarchy, where the autonomy of the parts ensures the order of the whole" (56). The parts, to be sure, are the natural religious communities that care for their members from the cradle to the grave, and which in turn receive the financial and political support of the state. To some extent, Liberation Theology in Latin America in the late twentieth century has many of these features, especially in terms of the fundamental social and economic justice that Catholicism ought to be fighting for in state capitals and not only in the confines of cathedrals. As Daly's report unfolds, it becomes clear that he favors the European model over the American: "in 2003, the United States had a higher GDP [gross domestic product], with 100 million fewer people, than the 15 core countries of the European Union combined. Yet as a percentage of GDP, the United States spends less on social transfers (welfare, unemployment, pensions, health care, and housing) than Portugal, the poorest country of the group" (88).

One of the lessons of the European model, as far as we can see here, is not to promote religious involvement in social welfare matters, but rather to notice something more subtle, yet profound: "Christian Democracy repudiates charity in favor of the public transfer of resources" (106). So the answer is not related to faith-based organizations replacing government agencies and becoming the sole conveyors of charity, but rather to the reconceptualization of the role of the state and its various agencies as ensuring minimal living conditions for the entire population, regardless of what religion is invoked and regardless of what means are being used. Perhaps other, nongovernmental entities can be more efficient; perhaps local involvement might ensure a more effective transfer of resources; but the point remains the same here and in Europe: Do we have a (Christian) commitment to promote human dignity and the conditions under which it can be enjoyed by all? Do we have some civic responsibility, as part of our social contract with the state, to reduce the abuses and suffering of inequality? These sorts of questions should haunt leaders of any political stripe; otherwise they remain beholden to their wealthiest supporters while espousing religious principles whose demands they fail to meet.

One of the unfortunate and more recent test cases of the will of the state and its leadership to rescue its citizens from a crisis situation and demonstrate the ways in which collective responsibility for the well-being of an afflicted group of people is made public was the hurricane Katrina disaster of August 2005 that affected Louisiana, Mississippi, and Alabama. The focus has been on New Orleans, perhaps because it has been an American cultural icon, perhaps because more lives were lost there than anywhere else out of a total of 1,836. FEMA (the Federal Emergency Management Administration) and the Bush Administration failed miserably in assessing the initial devastation and in providing immediate relief. Private citizens and the private sector, including retail giants like Wal-Mart, proved to be more concerned and more effective in providing simple essentials, such as bottled water and blankets, to people who were escaping the disaster area, as their houses were washed away or completely destroyed. Unlike the failures of government agencies, from the federal level to the local city officials, what stood out is the resiliency and compassion showed by local churches. Churches filled in the social and human vacuum left by political institutions and organizations. Perhaps the strong sense of community that has spun around church activities stood the test of this disaster: The local priest or minister was more trusted than the mayor or the president; the local church, if still standing, was a trusted sanctuary in which to find refuge. Daly's exaltations of the European model of church involvement in social programs could be seen in action in the lower ninth ward of New Orleans; its success put to shame the mighty state whose rescue efforts in this situation paled by comparison to its willingness to spare no money on international humanitarian aid.

The role of the church in the state, especially in the American experience that has been ambivalent since its inception of how religious it should or should not be (Thomas Jefferson's notion of civic religion should be remembered) is more than a functional or instrumental question: What is so appealing about religious belief is a sacred doctrine that provides an ordered universe with direct cause-and-effect trajectory for every human behavior or natural occurrence. In this vein, then, when a religious leader promises God's forgiveness or spiritual elevation in the afterlife, he is most likely offering much more than a government bureaucrat who is limited by budgetary constraints and a confusing set of policies. When technoscience and the state fail to bring home reassuring answers to all the questions that trouble us, religion is right there in full force, because it brings clear-cut and simple answers, unlike the academic or intellectual community, answers people can understand and rely on, even if their verification or fruition come only in the afterlife. Fear and hope, similar to the fear and greed of the business world, remain salient human features that are handled (or manipulated, if you wish) by religious institutions, so that submission, obedience, and gratitude are played out within a simple framework of good and evil, where the spectrum is set forth for individual consumption. One finds rewards and punishments within this framework, so that there is an explanatory model for human behavior and interaction. When the explanatory model fails or when counterexamples abound, religion can easily bring up a supernatural divinity or divine intervention that is beyond human comprehension or assessment, as in the case of Job.

Perhaps the lessons from experiences, such as the Katrina disaster, relate to the kind of cooperation and coordinated efforts we have discussed all along within the economic context, illustrating the extent to which political institutions might be falling behind the corporate culture that is more sensitive to its own sustainability and growth, its health and the happiness of its labor force, and the religious community whose survival depends on it. Whether or not the state is beholden to corporate America (Klein), whether or not capitalist markets are protected by political elites through legislation (Reich), and whether or not there is (or should be) any separation between the economic, political, and religious domains remain broad issues we can theoretically dissect and critically analyze for years to come. But when we deal with the realities of the American cultural scene, appreciating its dependence on the economic and political domains, we can tease out one factor on which we can concentrate and that can almost single-handedly transform these realities, namely, the cultivation of cooperation among individuals and groups. Under conditions of cooperation we can find once again our human compassion and spiritual aspirations that make our life here and now more pleasant, less stressful, and abundantly peaceful. This factor, though, must be appreciated by leaders across the spectrum so that they, too, can focus on it in their own organizations and become role models in their respective communities.

Perhaps the Katrina experience brings up a whole other set of issues (mentioned in the preface) that are relevant to the American cultural landscape and that might have been underemphasized so far. One of the greatest contributions of American thought to the rest of the world has been pragmatism, which is both a way of thinking about reality, truth, and meaning (in the philosophical tradition of Charles Sanders Pierce and William James), and a way of thinking about economic and political questions as well (from sociologists to policy makers). Americans as a whole do not object to the wealth of the rich and their ostentatious lifestyle; on the contrary, they call them celebrities, and they follow their every move with great relish and enjoyment. Bill Gates and Warren Buffett are not hated for their wealth, but rather admired for their smarts. They acquired their wealth through hard work and ingenuity; they are not criminals who stole and cheated their way to the top of the market, like the Hunt family who cornered the market on silver for a short while, Michael Milken who manipulated the financial markets, Martha Stewart who profited from insider trading, the Enron executives who manipulated energy prices, or the likes of Leona Helmsley, the real estate and hotel billionaire who evaded taxes. Profitable corporations are applauded in the media and are not afraid that their headquarters will be burned to the ground by malcontents, so long as they follow the laws of the land and pay their fair share of taxes.

The pragmatism of philosophers of science and other scholars paved the way for thinking of reality in practical ways, in ways that make sense and that are accessible; in ways that take out superstition and dogmatism and make the logic of situations transparent to anyone wishing to scrutinize why something has been done. The factual foundations and methodological debates of yesteryear seem superfluous when we want to drink water from a well: What pump will bring it to the surface? What filters must be used to ensure safety? Whether or not the water is God's gift or not becomes less essential to understand. Similarly, economic solutions are sought after, regardless of which (economic or ideological) principles are being used: Can unemployment be reduced? If yes, just get it done! It is with this in mind that the American public seems to appreciate efficiency and transparency, expecting to be dealt with honestly. And perhaps this is a missing ingredient from many contemporary discussions about the economy. Most Americans seem not to care if we call our markets capitalist or welfare, coordinated or hybrid, just as they do not care who produces their cars and where: Are they fuel efficient? Are they inexpensive? Are they reliable? We seem to have traded in our nationalism (except when the war specter is invoked) for efficient pragmatism. Perhaps this is what Adam Smith had in mind all along.

It seems, then, appropriate to close this chapter with the father of capitalism, and remind ourselves that his own prescription to his readers at the time was to understand the deep interconnectedness they must have with their fellow members of society, that their own happiness depended on others, and that the general prosperity of their society had a direct effect on each one of them. This mind-set goes further than we commonly hear among capitalist zealots or the proponents of rugged individualism. Here is Smith:

> Man, it has been said, has a natural love for society, and desires that the union of mankind should be preserved for its own sake, and though he himself was to derive no benefit from it. The orderly and flourishing state of society is agreeable to him, and he takes delight in contemplating it. Its disorder and confusion, on the contrary, is the object of his aversion, and he is chagrined at whatever tends to produce it. He is sensible, too, that his own interest is connected with the prosperity of society, and that the happiness, perhaps the preservation of his existence, depends upon its preservation. (Smith *MS,* 169)

If we believe today, as did Smith more than two hundred years ago, that our self-interest is somehow contingent on the prosperity of society as a whole, and if we likewise appreciate the extent that this contingency spreads across the globe, then it's not a leap of faith for us to move beyond ideological protestations and the rhetoric of simpleminded media pundits and claim a levelheaded commitment to finding pragmatic solutions to our recurrent financial crises. Let the financial crises come and go, making them as mild and painless as possible. As long as our faith in our pragmatic abilities to find short- and long-term solutions to our problems is kept, and as long as we recognize the dynamic and fluid nature of capitalist markets, we should never have the kind of confidence crisis we are suffering today.

Chapter 6

From 2008 Crises to Pragmatic Postcapitalism

As this book is going to press we have come to realize that what has been characterized as the 2008 financial crisis tied to the subprime mortgage crisis and to the energy crisis is much wider and more pervasive, and can be understood to be a global set of economic crises. By the end of 2008 most major banks and banking institutions in the United States and the European Union will be partially or wholly owned by their governments. This kind of state ownership was hardly envisioned from the inception of capitalist markets in the Western world. Yet, we have to tread carefully here and remind ourselves that capitalism is not a political framework but an economic one, so that capitalist markets can just as easily exist in totalitarian regimes (as we saw in dictatorial Chile) or democratic ones. At times we have forgotten this distinction and talk of capitalism as if it were a political and social arrangement rather than a more limited economic one. Perhaps this is because of the great influence of the Chicago School that explained political freedom in terms of economic freedom, rather than the other way around. This one-sided reductionism of the economic to the political failed to appreciate its own unique American history of pragmatism, the one outlined by Pierce and James and Dewey. Our own version of pragmatism owes its cultural foundation to the original conceptions of American republicanism, as stated, for example, by the likes of James Madison. In the 51st Federalist Paper he says:

> But what is government itself but the greatest of all reflections on human nature? If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered

> by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. (Hamilton et al. [1787–1788] 1961, 322)

As we have seen throughout this book, we are not angels and we are not associating with angels in our daily lives; but neither are we monsters who must live in constant fear of each other. Because fear and greed may influence many of our decisions, especially in perilous economic times, we are more inclined to find refuge among our friends and associates and seek support and protection from our communities (religious ones, as we have seen in New Orleans) as well as from our local and national representative government. Our local regionalism might be too small or weak to protect us, and the global economy too broad and remote to be an immediate source of solace, so then the national boundaries of the economy, however artificial and elusive, become the appropriate source of confidence, the focus of our hopes for relief. It is in this sense, then, that the nationalization of the banking industry might be the reasonable solution under the current circumstances. The appeal to national governments around the globe to intervene and stabilize their economies might seem strange after years of market deregulation, but they make sense if we have a better appreciation of human nature and of the peculiarities of markets (as already understood by Smith and his fellow political economists).

Orthodox Marxists and staunch capitalists alike have failed to appreciate one of the most important features of capitalism, namely, its elasticity and mutability in regards to all of its principles, structures, institutions, and frameworks. This ever-changing and self-renewing system of market exchange is so diverse and changing that one might not recognize its capitalist origins at times, and therefore must call it organic: Its emergent qualities transform its very foundation. So, holding on to its foundations in any classical or modernist fashion flies in the face of its multiple realities: It has transformed itself into postcapitalism and therefore needs to be understood in postmodern terms, as I proposed at the very beginning of this book. We are no longer in the safe ideological zone of being for or against capitalist markets; instead, we are in between ideological zones that require the navigational skills of creativity and foresight, listening and experimentation, collaboration and leadership. Few among us can master all of these skills, and because of this fact we must seek the help of others, in short, collaborate. In the postmodern age of postcapitalism and American pragmatism, we are in fact moving beyond ideology, and should preserve our natural love for ourselves as members of society, as Adam Smith reminds us. This, too, was the intellectual gist of John Dewey's call for an "organic" reconstruction of social philosophy and the understanding of the enactment of social policies (Dewey 1920, 187). Instead of holding on to this or that theory, arguing for a specific stance based on a particular view of individuals and their societies, Dewey understood the ongoing changes that individuals and their societies are undergoing, and could see no value in holding steadfast to one idea or ideology. The practical solutions he was looking for came to be known as American pragmatism: a practice rather than an idea, a solution that is bound to be revised as conditions change. What makes this organic in pragmatic terms is that it is not forced from the outside so as to ensure compliance with a certain political platform or ideological conviction. Instead, this pragmatism is similar to the postmodern commitment to judge everything case by case: to avoid a strict adherence to a foundation and its principles that might be inapplicable in certain situations. The American Treasury Secretary Henry Paulson, for one, when announcing the largest bailout of banks and insurance companies in the history of the country, made sure to explain how contrary to his own beliefs this bailout is; he admitted that his recommendations and the congressional support they have received fly in the face of his long-held convictions about the independence of capitalist markets. Yet, they are a necessary evil we must agree to impose on ourselves at this particular moment in history, and may overturn at a later time.

Instead of perceiving these times in disastrous terms, we could embrace them as giving us the opportunity to rethink our beliefs, reevaluate our commitments and convictions, and reconstruct an economy that is less susceptible to cycles and crises. There could be a sense of renewal now that is reminiscent of what happened after the Great Depression and after the destruction of so many economies during World War II, a sense that we can reconfigure what is the most efficient and the most humane set of institutions under which we would like to live, whatever label we give them. Would they look a bit like the social democracies of Europe? Perhaps to some extent they would. But they would have an American flavor tinged with pragmatism and ingenuity, with efficiency and freedom of choice that would remind us of the republican ideals that the framers of the Constitution had in mind. Not that we ought to revert to an age of racism and sexism, but rather to an age that was full of compromises so that enough votes could be mustered in order to have the union of the original colonies. When some judges and justices of the Supreme Court make absolutist claims about the original intent of the Constitution, they forget how much it was crafted on the ruins of principles and not on their substance, how many times votes were granted despite strong objections, and how much democratic institutions require balancing acts and compromises. In short, they forget that it has been our role over the past two centuries to democratize our republic, to put our faith in the common sense of the people to decide for themselves what is right and wrong.

As this book goes to press, economists from the entire ideological spectrum find themselves befuddled by the realities of the markets and the confusion of politicians and financial leaders. There is no coherent or singular voice that represents the sentiments of all; instead, apologists and critics alike find themselves explaining things that make no sense or that make sense only within a specific set of circumstances. Lawrence Brown and Lawrence Jacobs rightfully lament what they call the utopian "promarket" extremes and plead for some level of realism or pragmatism in the present economic situation of unbridled deregulation (Brown and Jacobs 2008, ch. 1). They appreciate that "when things go wrong, Americans look to government and to their elected representatives for help" (6). And though they devote their book to analyzing the paradox of avowed antigovernment deregulation and the increase in government size and supervision in the cases of transportation, education, and health care, they are quite clear about the devastating effects of "dogmatic utopianism" and the rhetoric of small government on markets and on the people who function within them (11, 39). Their conclusion fits quite well into my own, especially because they, too, make sure to recall Smith's injunctions for public goods. In their words:

> In good American pragmatic fashion, government should aim to discern the right balance for the policy arenas in question, a balance between protecting citizens and encouraging market forces, achievable only by enfolding market mechanisms within cogent public rules and serviceable managerial structures. (124)

Brown and Jacobs worry if this pragmatism would be in conflict with other American values, such as "individualism and antistatism" (127–128), but I would hasten to claim that indeed what makes American pragmatism both unique and practical is its ability to refashion these principles and to appreciate our individualism within a community, and our dislike of governments and their oppressive authority as a necessary evil that allows us to function well. We are not as rigid or as blinded to the realities of our surroundings, as Dewey said, and we are therefore more prone to make choices that are fraught with compromises. In this respect, we are likely to find the middle ground we saw in Chapter 1, where the Popperian method of trial and error and piecemeal engineering was advocated. We are not angels, Madison reminds us, but humans whose emotions affect their rational behavior, and as we are seeing in these times of economic turmoil, we are prone to behave irrationally or panic, to lose our confidence not only in ourselves but also in our leaders.

As we are seeing today, the political leadership must collaborate and engage the financial leadership and perhaps academics and intellectuals as well so that together they can come up with workable solutions for the short and long term. Their engagement is a process with an elusive goal, but a process that must combine the harsh realities of the day and a national moral compass. With this approach, they will consider our situation in the following developmental, organic manner: first, a critical review of the regulatory framework of market capitalism to ensure fair and effective balance, second, a deliberate intervention in the markets to protect the interests of those affected by the crises, and third, a purposeful delineation of national and private industries so that vital interests can be protected under state ownership. The current bailout packages that permeate the global economy all have undergone this process in one way or another, and none have simply been a quick fix of nationalization to this or that segment of the market. The case of small countries, like Iceland, is telling, because its three major banks were as recently as 2002 privatized, and were renationalized by the end of 2008. In the intervening six years, these banks joined the international financial community because they thought they had to in order to survive and expand, in order to maximize their profits and grow, and they found themselves broke and insolvent. In retrospect, it is easy to see how erroneous these choices and decisions were and how much more prudent it would have been to focus on the local economy and the national interests of the country and perhaps remain under the tutelage of the state.

The process of regulation, intervention, and nationalization when needed is mutable, given that economic conditions and circumstances are bound to change over time. There can be no uniform or universal maxim according to which the relationship between capitalism and democracy must operate to fulfill our dreams and hopes and to ensure the elimination of poverty and suffering. Just as Socrates reminds us that "the unexamined life is not worth living," we can remind ourselves every day that the unexamined capitalist life is not worth protecting if in the process we lose our liberties or a sense of human worth and dignity. The examined economic life should be part of a broader examination of our political, social, and moral life, so that the one would support the other, with compromised ideals and truncated principles, but with ideals and principle nonetheless. And it is these ideals and principles that should guide our leaders as they purport to work on our behalf and gain our confidence that our best interests, and not their own, are paramount on their minds. The fact that banks around the globe are being regulated and are partially owned by their national governments could mean a new era of public involvement and scrutiny of their operations. The institutional structures of market capitalism need not be destroyed in the name of regulation, but they can conform to some basic principles of decency and honesty, fair market profits and respectful employment practices. Let us be clear that when commercial banks borrow funds from the central or federal bank at 2 percent, for example, and then give out loans for 8 percent, their gross profit is 300 percent (and not the 6 percent difference most are inclined to think of). This gross profit margin is enormous, and perhaps should be curtailed and lowered. What if banks' gross profit were 100 percent (i.e., they would charge 4 percent for mortgages)? It is this kind of thinking that would reorient banks to fulfill their economic and social roles as opposed to thinking of themselves exclusively in financial terms as the providers of optimal profits to their shareholders and completely disregarding their clients and the long-term stability they can ensure.

Throughout the book I have brought up some issues related to our conceptions of human nature and our views of our fellow humans and the ways in which we have organized our society. Our culture is as much influenced by the framers of the Constitution as by celebrities whose images bombard us through relentless media exposure. Perhaps we are still beholden to a view that the only way to measure success, and through it our happiness, is in financial and material ways: the size of our cars and houses, the clothes we wear, and the entertainment we can afford. This view is also responsible for associating successful individuals with wealth and power, and to some extent with superior knowledge and expertise. But wealth is accumulated in a variety of ways, through inheritance and good fortune, by accident and luck, and not necessarily by hard work and superior talents. To equate wealth and wisdom is a mistake our culture should not perpetuate. We should recognize the inherent fallibility of humans and the institutions they have created over time. It is this fundamental fallibility that demands our vigilant critical reevaluation of all knowledge claims—whether about the economy or science—so that the most we should be willing to concede is a skeptical acceptance of these claims, with a clear mandate to challenge and revise them over time, being clear that our errors are enlightening and can be avoided in the future. If this means rethinking capitalism, so be it. If this means regulating markets and insisting on public scrutiny of private enterprise, why not? At the end, as we currently see, it is the public that will come to the rescue of the private sector and that will bear its costs. Why should the public bail out corporate America? Perhaps the answers lie in the muddled area of the philosophical discourses that examine the boundary conditions between the political and the economic, the social and the moral. In other words, economic crises require a broader perspective than the one given by those who are responsible for them, and because of this more of us must participate in the discussion and offer our humble opinions, contribute our tentative solutions to far-reaching practical problems. To some extent, then, this would be a way to help democratize our republic, to reconfigure power relations across economic and political domains.

Governments are neither good nor bad in and of themselves, nor are the suggestions of economists or philosophers. The value of government intervention can be assessed only relative to its consequences, and those in turn must be assessed in terms that are relative to numerous social and political contexts as opposed to one single economic measurement, such as the gross national product or the national debt. This kind of pragmatism follows Dewey's conception of reconfiguring the very terms and concepts we use when discussing a problem and follows the postmodern credo of contextualizing the conditions under which choices are being made. Absolute or universal categories no longer work in a global economy where differences and similarities are difficult to ascertain, where one move can change the entire financial landscape, and where issues of bank credit liquidity, for example, could affect the eligibility of all of us to receive a mortgage for a home. If global conditions affect local decisions, and if we fail to have appropriate filters and safety networks to translate from one situation to another and from one sector to another, then we are bound to experience even more crises in the future. We live in perilous times only because we have brought them about: We have the power and the responsibility to change market capitalism in ways that would ensure more stability and prosperity for years to come. We might need a great deal of courage and will to make such changes, and therefore they might seem illusive, but the alternatives of doing nothing or tinkering at the margins look even bleaker. So, in conclusion I recommend that we follow not only the American pragmatist approach, but also Adam Smith's who, as a moral philosopher, had a basic trust in human benevolence and the ability to set in place institutions that would promote social benevolence and our happiness.

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