A Critical Analysis of the Development of an American Business Apologetic from Knight and the Libertarians to Selekman and the New Business Moralists

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A CRITICAL ANALYSIS OF THE DEVELOPMENT OF AN AMERICAN BUSINESS APOLOGETIC FROM KNIGHT AND THE LIBERTARIANS TO SELEKMAN AND THE NEW BUSINESS MORALISTS.

A Thesis
Presented to
The Faculty of the School of Business
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In Partial Fulfillment
of the Requirements for the Degree
Master of Business Administration

by
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America has attained a stature in economic life that is unique in modern times in the congregation of the nations of the world.

Undoubtedly American business enterprise, with its titans of industry, has been highly responsible in building up the stature of the United States of America.

But on the horizon of the American business world in recent years there has been a renewed search for proper goals, values, objectives, and philosophies. The result of this renewed examination of values is the development of an American Business Apologetic. The critical issue before the American business world is "business is business--or is it?" and this issue looms large now as never before. It is the central purpose of this thesis to explore the various facets of this development of an apologetic from the viewpoint of two contemporary schools of thought—one led by F. H. Knight and the libertarians and the other led by Benjamin Seleman and the moralists.

The proposed method of approach to the problem of an apologetic is through an analytical evaluation of the literature of the influential leaders of the two schools of thought.
The Plan of the Thesis

The first chapter introduces the problem and raises issues which will be examined subsequently in the later chapters.

The second chapter analyses the conflicting views about the goals, motives, and objectives of American business enterprise.

The third chapter discusses the views of F. H. Knight and the libertarians with regard to market economy and American business enterprise.

The fourth chapter is a critical examination of the emerging moral philosophy of business enterprise, so much influenced by the new business moralists led by Selekmann.

The fifth chapter deals with economic and cultural change. This examines briefly what I call, "Intellectual Capitalism" and "The Paradise of the Proletariat."

The sixth chapter concludes the thesis with my observations with regard to the "apologetic."

Finally, I would be failing in my duty, if I failed to express my debt of gratitude to my advisers, Dr. Gene Booker, Dr. Fred V. Hartenstein, and Dr. Cornelius Loew, whose guidance, advice, and encouragement have been more than helpful. I express my heart-felt thanks to my advisers.

I wish to take this opportunity to express my gratitude to Mrs. Carol L. Sinclair for her patient perseverance in her role as typist.
Table of Contents

Chapter I
The Nature of the Problem
  b. Quo Vadis?

Chapter II
The Conflict of Aims and Motives in American Business Experience
  a. The Conflict.
  b. The Role of Profits.
  c. The Newest Profession.

Chapter III
Libertarian Arguments for a Market Economy
  b. The Role of State and Economic Policy.
  c. The Role of Religion.

Chapter IV
The New Business Moralists—A Critique
  a. The Doctrine of Responsibilities.
  b. The Quest for a Moral Philosophy.
  c. The Role of Religion.

Chapter V
Economic and Cultural Change
  a. Intellectual Capitalism.
  b. The Paradise of the Proletariat.

Chapter VI
The Conclusion
CHAPTER I

THE NATURE OF THE PROBLEM

(a) American Business Apologetic:

What is this American Business Apologetic? There is a concept of an apologetic. How did we happen to be interested in such a concept? What are its implications and its nature? Is this apologetic a "missing link" in the evolution of American business enterprise? Have we lost faith in the well-established and time-honoured theory of business so ably expounded in "The Wealth of Nations" by that apostle of economic thought, Adam Smith, who rationalized the goals of business in his illustrious classic?¹ Or is American business so unique that it has necessitated the development of a new apologetic in the light of the modern environment—economic, cultural, social, and political? In short, "business is business, or is it?" and this issue looms large now as never before. These are some of the intellectually stimulating questions that strike the imagination of a student engrossed in the medley of ideas about the American business world and its literature.

It is the purpose of this thesis to explore and analyze these various stimulating questions with regard to the possible

existence of an apologetic in the light of the arguments of Knight and the libertarians and the views propounded by Selekman and the moralists.

On the horizon of the American business world there has been in recent years a renewed search for proper goals, motives, policies, and objectives of business enterprise and the result of this renewed examination of values may point the path towards an American business apologetic.

That eminent historian, Toynbee, tells us that "The story of Roman business is part of our historical background." The English word "business" is a literal translation of the Latin word "negotium." "Negotium" means "the opposite of leisure" and the Latin word for "businessman" is "negotiator," which of course means not a negotiator in our English sense of the word, but "a man who denies himself leisure to get business done." He denies himself leisure and engages himself in business in order to maximize his economic advantage in the form of profits. This has been the classical theory of business where the end of business is the maximization of profits, and on the basis of this classical school of economic thought, American business and businessmen seemed to have justified their operations.

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3 Ibid.
But in recent years this well-accepted position appears to have been re-examined in the light of various developments, which provide a fresh insight into the development of American business thinking. It would be worthwhile to take a look at the various significant developments briefly.

First, living in an age of specialization, the rise of managers and their specialization, the profession of management marks a unique development in American experience, where the managers specialize to manage men, machines, and markets. The divorce between ownership and management is a recent development, which is conspicuously discernible in modern corporate business and while owners (the stockholders) have come to occupy the backbenches, the managers have come more and more into the limelight and this indeed is an important development. The managers are very influential, for they control and direct most of the business operations of the country and they and their profession of management shall be discussed in greater detail in the second and fifth chapters of this thesis.

Secondly, living in an age of reason, science, and education, managerial education might be called the mother of modern managers. These rational and intellectual managers are the products of modern managerial education imparted in firms and the Business Schools all over the United States of America. And, whatever the cause, business has gained a certain sophistication and it is no more a dull dreary affair, but an intellectual
exercise, where one's wits and guts are pitted against the multifarious complicated issues and problems of the modern complicated environment. Modern managerial education has facilitated a 'managerial revolution' and an 'organizational revolution' within the framework of society. The modern manager is being constantly reminded that his function is that of "the statesman's function of mediating among the groups dependent on enterprise, satisfying their just claims, and preserving the continuity of the organization, while always remembering that private office is a public trust and keeping the interest of general public paramount." The modern manager talks not only of making the maximum profits for his organization, but also of his responsibilities to the society and the country, which were seldom considered in this light by his owner-entrepreneur predecessors. Living in an era which has been called the age of reason, where every human activity tends to be rationalized and justified—favourably as far as possible by the several interests involved, there appears to be a new plea for understanding the proper goals and aims of modern life and this plea by those engaged in business for a justification of their calling or profession, could also be a significant clue toward the development of a new American business ethic.

Thirdly, living in an age of righteousness, where right is might, and not might is right, there is a quest for a moral philosophy of economic activity. All was fair in the struggle for survival during and after the frontier days, which were marked by ruthless, rugged individualism, but in the absence of any such immediate internal threat—and in the face of an external threat, which I shall presently put forth, a philosophy that the sole aim of business is to maximize profits—appears somewhat cold, crude, and primitive. From Galbraith's perspective of an affluent society, which revels in opulence and abundance comes added criticism of profit seeking. This aspect of the problem shall be discussed in greater detail, when we come to the new business moralists in the fourth chapter.

Fourthly, we are living in an age of ideology and in a world torn between two conflicting ideologies—capitalist and communist—which are vying against each other to capture the imagination of the peoples of the world. Pitted against an ideology, which claims to give birth to a classless society and a paradise of the proletariat, America must offer something more than mere pure selfish aggrandizement of a few businessmen to capture a greater following for its ideology of freedom—economic, political and social. American capitalism has undergone many changes to suit the times, even as communism has, and free private enterprise plays a predominant role in American economic and political life and hence there is a greater need now as never
before, for goals that are not only just, moral and proper, but also appealing and progressive to sanctify its way of life and to capture the imagination of the peoples of the world. In the fight against communism, there seems to be a heavy accent placed on noble, humanitarian and religious goals of American business, rather than mere profits of the organization, although it is maintained that profits are the lifeblood of business. The place of profits in American business enterprise shall be discussed in the second chapter.

Here, the arguments of Knight and the libertarians of recent years, with their accent on economic freedom as a goal and avoidance of the 'road to serfdom' seem to provide fresh insight into the development of business thought. Knight and the libertarians will come under discussion in the third chapter in detail.

Fifthly, living in an age of criticism—enlightened as well as foolish, the increasing criticism of big business, seemed to have encouraged the development of an apologetic as a measure of self-defense. It is claimed that big business has produced a culture and an economic environment where the rise of a dominant, selfish motive of making money may have resulted in the degeneration of the aesthetic, intellectual, moral, and spiritual development of the individual. James Truslow Adams in his "Our Business Civilization," raises this significant question: "Can a great civilization be built upon the philosophy of the countinghouse and the sole basic idea of profit?" In the words of professor

Maurice Baum, "Just how 'uncivilized' is America's business civilization? Both from this country and from abroad, we are constantly being scolded for being materialists, anti-intellectuals, babbits, organization men, and political juveniles. In view of this formidable attack on business, a defense for American business is only natural, imminent and understandable.

Although these various developments are significant in the consideration and analysis of an American business apologetic, it is the aim of this thesis to critically analyze the development primarily in the light of the arguments of Knight and the libertarians and Selzkman and the new business moralists. It is interesting to note that while the libertarians cry from the rooftops, that "business is business," the new business moralists raise equally vehemently the question, "is it?"

(b) Quo Vadis:

Herodotus, the Greek historian, wrote that there were three periods in the life of a nation. The first period was the period of struggle and success. The second period, as a result of the struggle and success, is arrogance and injustice. As a result of arrogance and injustice, decline and downfall mark the third period in the life of a nation. The history of


our world is eloquent evidence and testimony to this profound analysis of Herodotus. One would place the nation of the United States of America in its second phase--struggle and success. While the struggle is still continuing, a unique measure of success, which has been unparalleled so far in the history of the world, has been attained in the economic environment of this country and the common labourer of today lives a richer and more luxurious and comfortable life than the Pharaohs of ancient Egypt.

This success is due in no small measure to American capitalism, which has been the backbone of American economic life. Professor Sumner Slichter points out so ably the five chief characteristic features of American economy. The American economy is: (1) one of predominantly private enterprise; (2) a labouristic economy; (3) highly competitive; (4) is highly dynamic; and (5) highly self-sufficient. The distinctive feature of American business is to constantly attain progress and always to be on the move. The owner-entrepreneur of 1900 is a complete novice when compared to his present day counterpart. Business is no more mere bringing in a few workers, making them produce a product and selling it in a small market. Present day business is highly elaborate, complex, and intellectual and it encompasses all fields of knowledge. The immense strides that we have made in science and technology--from splitting the atom, to blasting

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the hydrogen bomb--have provided additional and more efficient
and economic tools for the managers to improve operation and
performance. The modern manager deals anywhere from ladies'
hosiery to nuclear missiles, as far as his business territory is
concerned; he deals anywhere from Kalamazoo to the remote markets
of India and the world. Small world but big business! Business,
the most ancient of arts and the newest of professions, has
assumed fantastic proportions and in the wake of this tremendous
growth of business and its influence, the ugly head of the dragon
has not been slow to raise its head in the form of many problems
to be faced by the modern managers. Raphael Demos expresses
that, "Thus the large-scale industry--a child--is born from the
marriage of business and science--has created grave problems by
its abrupt and quick growth." 9 From the age of hand labour we
have marched into the age of computers and business machines and
the time has come to pause and raise the question with Selekman,
"Indeed, are not we all caught up in an uneasy sense that we are
being propelled along at a dizzy pace, whither we know not?" 10 In
short, Quo Vadis? Not only do we raise the question, Quo Vadis,
but also Quis Vadis? Whither are we bound and why are we bound
thither? In order to best express the predicament of our age, we
fall back on Lincoln--the noblest embodiment of noble ideals--

9 "Business and the Good Society," Harvard Business Review
10 Benjamin M. Selekman, "Businessmen in Power," Harvard
when he gave expression to the dilemma in national affairs during civil war years in his inimitable prose: "If we could first know where we are and whither we are tending, we could better judge what to do, and how to do it."\(^{11}\)

Are the goals and purposes of business opposed to those of the country? How do we reconcile the democratic concepts with status symbols? Is it the purpose of business to provide an environment and equality of opportunity for the full development of the individual? All these questions open altogether a new vista. The conflict of aims and motives of the "organization of the enterprise economy (usually miscalled "capitalism")\(^{12}\) according to Knight, bears closer scrutiny and examination. Knight's discomfort at the use of the word "capitalism" at the present juncture of conflict, brings to my mind the familiar story of two people who met on a street: "Hello, John," the former said, "I am so glad to see you after a long time. The last time I saw you, you were thin, weak, fair, and there was not a sign of baldness. But, look at you now! You are strong, stout, dark, and bald, too." The latter intervened, "But, sir, I am not John. You have mistaken me. I am Len Anderson." The former confidently rejoined, "Oh, I see you have changed your name, too!"

Likewise, not only is the character of American capitalism rapidly changing, but also even the name seems to be changing in

\(^{11}\)Carl Sandburg, People, Yes. (New York: Harcourt, Brace & Company, 1936), p.139.

the light on new developments, which have thrown business enterprise into the throes of a conflict. We shall proceed to examine this conflict in the next chapter.
CHAPTER II
THE CONFLICT OF AIMS AND MOTIVES IN AMERICAN BUSINESS EXPERIENCE

The era of clear-cut complacent conclusions of economic theory as to the aims and motives of business appears to be speedily being replaced by an era of conflicting views and thoughts justifying managerial operations or actions. The character of the conflict might best be studied under three phases; (a) The nature of conflict; (b) The place of profits; and (c) The rise of the newest profession—management.

(a) The nature of conflict:

The nature of the conflict of aims and motives in the American business experience encompasses several ramifications—economic, social, cultural, political and philosophical—which we shall examine briefly in order to appreciate the possible emergence of an apologetic.

First the consideration of the economic conflict of business raises a very significant question: What is the goal of business? The economists have pointed out in their cold, calculated jargon that ceterus paribus, the aim of individual business activity is the maximization of profits. This economic theory seems to be in conflict with modern business experience. The dilemma in business objectives could be best expressed in the words of Joel Dean:
"Economic theory makes a fundamental assumption that maximizing profits is the basic objective of every firm. But in recent years, 'profit maximization' has been extensively qualified by theorists to refer to the long run; to refer to management's rather than to owner's income; to include non-financial income such as increased leisure for high-strung executives and more congenial relations between executive levels within the firm; and to make allowance for special considerations such as restraining competition, maintaining management control, warding off wage demands, and forestalling anti-trust suits.

The concept has become so general and hazy that it seems to encompass most of men's aims in life. This trend reflects a growing realization by theorists that many firms, and particularly the big ones, do not operate on the principle of profit maximizing in terms of marginal costs and revenues. . . ."\(^1\)

Peter F. Drucker writes that:

"The average businessman when asked what a business is, is likely to answer 'an organization' to make profit.' And the average economist is likely to give the same answer. But this answer is not only false; it is irrelevant . . . Similarly there is total bankruptcy in the prevailing economic theory of business enterprise and behavior: the theory of the "maximization of profits"—simply a complicated way of phrasing the old saw of "buying cheap and selling dear."\(^2\)

Are profits really irrelevant in the modern context of business experience? "Profits are the lifeblood of business," says Ralph J. Cordiner.\(^3\) The "naive" views prevalent and advocated regarding profits call for a closer clarification of

\(^1\) Managerial Economics. (New York: Prentice-Hall, 1951), p. 28.


its place in modern business operations and the place of profits shall be discussed separately.

Secondly, modern business faces a social conflict and it is pointed out that one of the goals of modern business is to "socialize" and to meet its obligations to the community and the country in the form of better, cheaper, more novel and efficient goods and services, which promote a better, richer and higher standard of living. This doctrine of responsibilities shall be discussed in detail when we examine the views of the new business moralists.

Thirdly, modern business faces a cultural conflict. Here is "a nation dedicated to the proposition, all men are created equal;" here is a culture, unique in itself, that believes in the equality of all men; and here are a people who want to live up to this cultural tradition. In this cultural environment, with the tremendous growth of enterprise, contemporary business at once faces the problem of power, where it can and does influence, mould and direct the individual life of people. It appears that the power-cum-authority conscious businessman is a little uncomfortable and incongruent in the 'native' culture, although he clings to power as a child clings to its toy. In the words of Galbraith:

"The role of power in American life is a curious one. The privilege of controlling the actions or of affecting the income and property of other persons is something that no one of us can profess to seek or admit to possessing."
He continues:

"Despite this convention, there is no indication that as a people we are averse to power. On the contrary, few things are more valued, and more jealously guarded by their possessors in our society." 4

Hence the modern manager explains that one of the goals of business is the development of the individual under the umbrella of democracy and freedom and pays lip-sympathy to consumer-sovereignty and equality of all men, even though he is more inclined to agree with this acid note of Clarence E. Ayres:

"Nature does breed inequality. According to the biologists this is fortunate, since it means that some few are far superior to the common run. Furthermore the Christian belief is that all men are equal in the eyes of God, but men are not expected to view each other in divine perspective. Similarly all men are equal in the eyes of law, but not equally guilty or stupid." 5

The reconciliation of status symbols—the concomitant of power and authority—with the democratic concepts is a real concrete cultural issue in business experience.

Fourthly, business has to lock horns with the state. With the growth power of business, it has become imperative for the state, as the trustee of national welfare, to see that business does not misuse its power and influence at the expense of society and nation. In the name of preservation of competition and free commerce and the extinction of harmful monopoly power, government

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has made considerable inroads into the enterprise system in the role of an umpire with the help of the legislature and so on. In an economic atmosphere, where perfect competition is only conceptual; where free competition is only unreal; and where workable competition is only possible, it behoves to agree with J. M. Clark when he says:

"Now that the restraints of competitive individualism are increasingly imperfect and inadequate, free collaboration and irresponsible self-seeking are no longer compatible. If we are to have collaboration by free men, it must be on the basis of teamwork and a recognized obligation to cooperate. If irresponsible self-seeking remains the dominant mood, we can have freedom without cooperation—which means chaos and breakdown—or we can have cooperation without freedom—which means totalitarianism in some form. We cannot have both."

Furthermore a revision of the aims and motives of American capitalism has seemed imperative in the face of the ideological conflict of this nation with Russia and communism. A capitalist ideology based on individual conflict, selfish individualism, avarice, limitless ambition, denial of social interests and individual aggrandizement looks preposterous and demonic by the side of the communist myth of a classless society, a paradise of the proletariat and the ultimate dictatorship of labour. A re-examination and re-definition of values of the enterprise system appears crucial and urgent in view of the pivotal place of

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America among the comity of free nations of the world. That the aim of modern business is to provide an opportunity for free and full development of the individual sounds much nobler, humanitarian, moral and Christian as opposed to the down-to-earth cold selfish profit maximization motive, although it does not give logical proof of being "better" however.

De Tocqueville wrote that:

"Democracy and Socialism have nothing in common but one word, equality. But notice the difference: While democracy seeks equality in liberty, socialism seeks equality in restraint and servitude."7

Thus the conflict is clearly between freedom and regimentation. In this conflict, the purpose and objectives of American enterprise are relevant and significant. Hence the apparent need for a new American business apologetic. Here the compromise between economic freedom and the national purpose poses the proverbial Gordian knot to the modern manager and business.

Last but not least is the philosophical conflict of enterprise economy. There is a search for a religious and moral ethic leading to a new justification of business and this aspect will come under review when we review the new business moralists.

Amidst the maze of the conflict of aims of business, it would be worthwhile to discuss the place of profits.

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(b) The Place of Profits:

There is a complacent confusion as to the place of profits in the modern enterprise and entrepreneurial operations.

"The root of confusion," asserts Drucker, who is interested in the art of management, not the science of positive economics, "is the mistaken belief that the motive of a person—the so-called 'profit motive' of the businessman, is an explanation of his behavior or his guide to right action . . . The profit motive and its offspring, the maximization of profits, are just as irrelevant to the function of a business, the purpose of a business, and the job of managing a business." 8

Another writer poses the question:

"Why do graduate students, by applying what they avow are sound analytical tools learned in college, often arrive at naive solutions to the problems in business cases?" And he proceeds to answer with firm conviction; "I have finally concluded that the trouble stems from the assumption in most college economics texts and college classrooms that the objective of a business is to maximise profits." 9

Cordiner, speaking of new frontiers for professional managers explains:

"That it is important to recognize the role of profits in innovation. Some economists have come up with the interesting theory that profits are essentially wages for innovation. It is equally true that innovations subsist on profits." 10

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8 The Practice of Management, p. 36.
10 New Frontiers for Professional Managers, p. 23.
Of course, Cordiner, the shrewd businessman that he is, does not fail to point out that profits are the lifeblood of modern business.

Clare E. Griffin in his "Enterprise in a Free Society," develops a theory which treats profits as a combination of reward for the assumption of risk and a differential return for relatively great efficiency in management. He argues that the more rapid progress of the economy, the larger must be the factor of risk because progress means change and change creates uncertainty and risk.

In the discussion of the place of profits in business, it is relevant to raise the question whether the modern businessman's place in business is to make profits or whether he makes profits in order to stay in business. This is the crux of the issue as a result of the abandonment of the magnetic fascination of profits in the classical model and the acceptance of a "corporate conscience" in the contemporary model of business, where the non-economic rewards of power, prestige, social approval and the general aura of public confidence and optimism are played up to appeal to a society, which has apparently met the physiological and safety needs of its membership. The full belly does not believe in hunger.

Does this mean that we have snatched away from profit, its rightful place in business activity? Far from it, in spite of the new business moralists, profits are as important as ever and no

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11 Clare E. Griffin, (Chicago: Richard D. Irwin, 1949).
needle moves without the modern manager calculating its ultimate profitability. Profits are the chief criterion upon which the success of the organization and the efficiency of management are evaluated. Despite the great sophistication of business, profits are the bedrock upon which every conceivable ramification of enterprise—marketing, innovation, basic research, advertising, mass production, mass distribution, mass financing, employment, stability of organization etcetera is constructed. To the modern manager, the motive of maximization of profits still may yield meaningful predictions about "his" future action, which is one of the objectives of economic theory. Profits are the daily constant concern of the manager, whether it is "maximum profits" or "minimum profits" or "satisfactory profits." Here is an economic system based not only on profits, but also on losses and this is a profit and loss system. A loss is a negative profit and the consequences of negative profit to the society, firm and the manager are meaningful.

"The man, who discovers a new scientific truth, has previously had to smash to atoms almost everything he had learnt, and arrives at the new truth with hands bloodstained from the slaughter of a thousand platitudes."12

A new product may be the product of a continuous flow of money into research. The talk of social responsibilities, service to country and community, charities, foreign aid, free and full

development of the individual, a high standard of living, a high level of employment etcetera are mere manifestations of a "going concern." A corporation without profits is a "concern gone," and gone also is all the talk that is eloquent, appealing and humanitarian and one might also note that these ideas don't yield the middle axioms that guide action in business problems.

There appears to be double-talk as to the goals and aspiration of business. In spite of this, managerial efficiency and the prospect of profits are closely interwoven. Profits are the mainspring of progress under the capitalist rules of the game. The recent price-fixing cases involving some of the leading electrical firms are no mere thunder in the wilderness, but a clear evidence of how far business is committed to the concept of profits.

The supreme paradox of modern enterprise experience is that while the society rests on the necessity, munificence and benevolence of profits, the profit motive as such is met with increasing social disapproval. The result of this social attitude on the businessman is well expressed by Raphael Demos:

"It is rather that he (businessman) tends to live a divided life, stressing self-interest inside his business while expressing his social impulses outside it."13

Although the elements responsible for this transformation are numerous and complex, there seems to be general agreement

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that the primary factor is the change in the size and structure of the business corporation and the training and motivation of those in control of business. Control of business has passed from the ownership hands into the hands of management.

A brief survey of the profession of management would help us gain an additional insight into the conflict of business aims and motives.

(c) The Newest Profession:

Among the professions, the newest is the profession of management and in fact it is so new that some even go to the extent of not accepting management as a profession for the lack of an organized body of knowledge and principles. In the age of specialization and division of labour and with the growth of big business, the control of business has transferred from the owners to the managers. Management is relatively free from the control of the stockholders—the real owners, who are hailed as the "functionless owners"—and the management personnel is often more highly specialized and selected for professional competence.

The managerial contribution to American business enterprise shall be discussed in detail in the fifth chapter, where we discuss economic and cultural change. But here we shall concern ourselves with the relationship of management to the conflict of business goals and motives.

With the institutionalization and professionalization of management, there has been an awakening as to the duties, obligations
and responsibilities of management towards employees, stockholders, customers, and the country. The motivations of modern management may be substantially different from those of the owner-capitalist. Here the prophetic words of Lord Keynes in the 1920's seem relevant to the present day experience:

"One of the most interesting and unnoticed developments has been the tendency of big enterprise to socialize itself. A point arrives in the growth of a big institution—particularly a big railway or public utility enterprise, but also a big bank or big insurance company at which the owners of the capital i.e. the stockholders are almost entirely disassociated from the management, with the result that the direct personal interest of the latter in the making of great profit becomes quite secondary. When this stage is reached, the general stability and reputation of the institution are more considered by management than the maximum profit for the stockholders."

Have we reached this stage? One wonders when one takes cognizance of what management professes and how it operates. The split-personality reminds one of the creation of R. L. Stevenson—Dr. Jekyll and Mr. Hyde—in a milder form. The managerial preoccupation with the general stability and reputation of the institution in itself may be related to a more sophisticated type of profit-maximization operation. Some argue that a management without personal stake in business, mainly in the form of partial proprietorship, is not quite conducive to the profit-ability and progress of the organization. While profit-maximization was the sole aim of the owner-entrepreneur of a bygone era, Beardsley Ruml points out that to the modern management:

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"Profit becomes numbers on a scoreboard, the pay-off entry in a competitive game. The incentive to management is not profit as profit, but the prestige that attaches to having made a good record, to being recognized as being more successful than the management of a competing firm in the same industry or to having earned more than last year or more than a previous management was able to earn."15

This does not change in the main the behavior of the firms in spite of the managerial revolution. Modern management is a balance wheel catering to the demands of consumers, employees, stockholders, government and the market structure and hence it must talk of progress, cheaper and better goods and services to the consumers, better wages and the opportunity for self-development to the employees, profits to the shareholders, community service and national purpose to the government, and free and fair competition to the market structure in order to gain the goodwill of all the above segments of business life and to perpetuate the profession of management.

Agitated at the enormous power vested in him, although inwardly enjoying his privileged position, the modern manager is a classic example of what Shakespeare meant when he wrote those immortal lines: "Uneasy lies the head that wears the crown."

Thus the aims and motives of modern business are not clear but seem sometimes to be so general and hazy as to encompass most of man's aims in life. The abandonment of the classical model has resulted in a conflict of aims and motives in business experience.

"Nevertheless, enough has changed," speaks Mason, "both in the system and techniques of thinking about the system to make the classical apologetic quite unacceptable to twentieth century opinion, and the managerialists are quite right in sensing that a new, or at least a refurbished, ideology is called for."16

The absence of clarity of purpose and the presence of conflict as to the aims and motives of business focuses our attention and interest on the emerging pattern of an American business apologetic to take the place of the classical apologetic. It is the purpose of this thesis to explore and analyse the development of an apologetic, confining ourselves to the arguments of Knight and the libertarians and the views of the new business moralists. Let us examine Knight and the libertarians in the next chapter.

CHAPTER III

LIBERTARIAN ARGUMENTS OF A MARKET ECONOMY

An Analysis of Knight and the Libertarians:

(a) Economic Freedom as a Goal.

(b) The Role of State and Economic Policy.

(c) The Role of Religion (Christianity).

"Man cannot live without an economic theology—without some rationalization of the abstract and seemingly inchoate arrangements, which provide him with livelihood."¹

In this chapter we shall deal with an analysis and exploration of the libertarian arguments of a market economy in the light of which it is the purpose of this thesis to examine the development of an American business apologetic. Mises and Hayek in Austria, Robbins and Jevkès in Great Britain, and Knight, Simmons, and McCord Wright in the U. S. A. have been mainly responsible for the formulation of the traditional liberal case in recent years, with a slight modification of the earlier liberal school of thought of Adam Smith and the physiocrats in the light of modern economic issues and changes. Incidentally it is interesting to note the coincident rise of competitive capitalism, political liberalism and individualistic philosophy of enlightenment.

The libertarian arguments of a market economy, which constitute a "libertarian apologetic," reveal three promises

from which we can explore their views. First, they are mainly preoccupied with economic freedom as a goal and an ideal. Secondly, they are concerned with the role of the state in the formulation of economic policy. Thirdly, the libertarians, whose concept itself is considered intellectual and rational as opposed to any sentimentality and irrationalism, because it is based on a religion of irreligion, take a strong position on the role of religion in the enterprise economy, which is diametrically opposite to that of the present growing trend of a "do-good-philosophy," so much influenced by the new business moralists. Let us start with the first premise.

(a) Economic Freedom as a Goal:

The complete spectrum of libertarian arguments of a market economy is an eloquent and passionate advocacy of economic freedom as a goal and an ideal, "because freedom is the only moral value that is recognized as relevant." The foundations of the market economy under libertarians rest on a passionate plea for a dispassionate rationalism, where the market forces are under the direct influence of the individuals and not the plaything of wind, weather, or spirits or even God:

"The rise of the strange phenomenon of modern liberalism is undoubtedly to be explained, "in the words of Knight, "in part as a reaction against the peculiar dogmatism, intolerance, and obscurantism of medieval "Christian Europe.""²

The passage from the "dark" period of faith to the "bright" era of reason brought forth in its wake the rise of individualism, political liberalism, and competitive capitalistic society, with the result the pursuit of freedom in economic, political, social, and religious life of the individual is a paramount goal. Whether the coincidence in the rise of individualism, political democracy, and competitive capitalism is a mere historical accident or not, is not the concern of this thesis, but our concern is centered around the libertarian arguments for economic freedom of the individual in the enterprise economy. In the opinion of Hayek:

"Freedom in economic affairs" as we know it in a system of competitive enterprise is a necessary prerequisite of the "personal and political freedom" which characterized western civilization."3

Knight, who champions the cause of the liberals, writes that:

"The cause in question here--freedom in economic life as a main component of freedom in general, is in the first instance that of free exchange in markets. Apart from being one form of association in which arbitrary power is practically excluded, this system of organization has the special and supreme merit of enabling men to cooperate for mutual advantage without argument--as far as the advantage was mutual and the problem of action is "economic" i.e. the effective use of given means to achieve freely chosen ends."4

3 See Freidrick A. Hayek, Road to Serfdom (Chicago: University of Chicago Press 1944).
... Economic principles are simply the more general implications of the single principle of freedom, individual and social, i.e. free association in a certain sphere of activity... The perfect market (miscalled perfectly competitive) is unreal, but conceptually necessary. It is the embodiment of complete freedom. The freedom in question centers in the right of each to be the judge of his own values and of the use of his own means to achieve them."

Here, the central assumption is that the individual is the best judge of his own values and interests and he is free to pursue them in his own way and such individual pursuit of self-interest will enhance the overall efficiency of the market economy with mutual advantage through free exchange of goods and services. The liberal apologists point out that:

"The "end" of the enterprise economy is, in liberal theory, productive efficiency, which means the transformation of the ultimate productive capacity possessed by each individual into maximum "income" consisting of "goods and services" reduced to a common denominator in terms of each individual's preferences."

Productive efficiency is the goal of a competitive market economy, whose fundamental tenets are founded on individualism—a theory of society where the pursuit of his own interests by each will work toward the greatest happiness of all. This must not be construed as advocacy of irresponsible self-seeking, for the liberals like O. H. Taylor admonish:

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6F. H. Knight, Freedom & Reform, p.56.
"... it must be clear to careful readers of physiocrats and Adam Smith, that their belief in laissez-faire and free competition was not a belief in the absolute right of the individuals to make as much money as possible, regardless of social consequences, but on the contrary, a belief that the public's right to good service at fair prices could be protected by universalizing the right to the pursuit of the best profits obtainable. They preferred to trust the individual's moral sense, plus his fear of competitors, rather than a law, which prescribed the quality of his output and his prices, but made him a sheltered monopolist."7

Another fact of libertarian preoccupation of economic freedom with regard to market economy is whether, in the pursuit of individual interests, there is a general harmony of interests or "harmony of rightly understood interests" or whether the conflicting individual interests lead to the maximum "good" for all in the natural order of laissez-faire capitalism. Here, Hayek denies the harmony doctrine thus:

"They (individualist writers) were more than merely aware of the conflicts of individual interests and stressed the necessity of "well-constructed institutions" where the "rules and principles of contending interests and compromised advantages" would reconcile conflicting interests without giving any one group power to make their views and interests always prevail over those of all others."8

McCord Wright points out that the creative vitality essential for progress is inseparable from a degree of selfishness and conflict; no perfect harmony is attainable or desirable and some conflict is inherent in the nature of the universe, of life and values.9

Galbraith places before us the group interests—farm, labour, management etcetera as a mere manifestation of the concept of conflicting interests. ¹⁰ Knight, ridicules the universal harmony concept in his inimitable style:

"The accusation that Adam Smith, e.g., believed in a universal harmony of interests among men, is merely one discouraging example of what passes widely in learned circles for history and discussion."¹¹

Knight proposes his celebrated theory of game and sportsmanship where the rules of the game:

"must envisage conflict," which is the essence of life, but this must take place within a larger harmony, whatever that may be. Conflict should, at any rate, be put on a progressively higher level. This means cooperation in thinking and acting to promote progress as the basis of all and all under the limitation of gradualism and seasoned with humour and play."¹²

Promotion of progress and productive efficiency, according to libertarianism, is the prime product of economic freedom. The principle of freedom is apparently accepted in modern civilization.

"It is a "value," a thing the individual ought to want, even ought to have if he may not choose it, a part of the modern ideal of the dignity of the person. Thus the laws of the liberal states do not allow men to sell themselves (or children) into "involuntary servitude," even if they so


¹¹ "The Role of Principles in Economics and Politics." p.16.

¹² Freedom & Reform. p. 177.
choose, though everyone is free from day to day to place himself or his property under the direction of another, on terms satisfactory to both parties. This is the entrepreneurial relation, which is in a real sense the central feature of the modern free economy . . . Freedom itself is a thing men want, and have a right to, even possibly at the cost of a formally better management of one's affairs by an overload of any kind.  

This passionate plea of Knight for freedom is not very dissimilar to the much celebrated passage of John Stuart Mill, a more illustrious, and the the earliest apostle, of liberal thought:

"The principle of freedom cannot require that he should be free not to be free. It is not freedom to be allowed to alienate his freedom."  

In fairness to Knight it must be pointed out that Knight was not completely unaware of the great error of the liberal age of the die-hard liberals—-that of exaggeration of the significance of the freedom or over-emphasis, to the neglect of other principles, as is shown in these words:

"It should not go without saying that freedom alone would not produce an approximation to the conditions required for a market itself, the freest possible market."  

This is a concept of modified liberalism, which may be defined in terms of what is "cricket" and what is not. While the libertarians are preoccupied with freedom, the conflict of individual freedoms is well-expressed by Martin Bronfenbrenner:

\[ \text{13 Knight. "Role of Economic Policy and the History of Doctrine." p.3-4.} \]


\[ \text{15 "The Role of Economic Policy and the History of Doctrine." p. 16.} \]
"Conflict between freedoms is apparent in contemporary America in problems of racial and religious discrimination. The freedom of A (Negro, Jew, and Oriental) to enjoy the same privileges as other Americans and mingle freely with them collides with the freedom of B (Ku Klux Klansman, Christian Frontier, or Native son of the Golden West,) to select those with whom he and his family come into contact. In labour relations, the freedom of A (the employer) to select his employees conflicts with the freedom of B (the worker) to join unions of his own choosing or speak his own mind on public issues. In intellectual matters, the freedom of A (the teacher and the research worker) to present his conclusions in his way or choose the problems on which he shall work, meets the freedom of B (the parent or the trustee) to determine what his minor children shall be taught or how an institutional fund be allocated."16

Here, of course it should be mentioned that the liberal ideal of society in accordance with the principle of freedom is free association. The ideal picture which the 17th and 18th centuries had painted was that of a free society in which the welfare of the individual was the supreme goal and was subject only to the equal right of all other individuals to the maximum measure of happiness.

Power presents a real economic and ethical problem to liberal thought:

"Freedom is freedom to use power, of which the individual may possess much or little or none at all, and be equally free."17

Freedom to use unequal power is not freedom. Knight traces what he calls "the sickness of liberal society" in the manifestation

17 Freedom and Reform, p. 55.
of two "mechanical weaknesses." (1) Monopoly and monopoly power; (2) Cycles of booms and depressions—and ethical limitations of individualism—that of unlimited self-seeking without proper checks and balances of a free market economy.18

At present, there is no greater danger than the "realistic" view that freedom means irresponsible self-seeking and nothing else, which is mostly due to the lack of libertarian concept of "ideal" competitive market, as is pointed out by one of the leading contemporary students of market organization:

"The principal general indications of the studies of American market structure are (among others) that concentration of output among relatively few sellers is the dominant pattern."19

This clear case of concentration of economic power in fewer hands, lends to an imperfect market which calls for proper checks and balances in order to lend itself to the libertarian goal of efficiency and maximum "good" of all.

With regard to this issue of individual power and how he is going to use it in the market, Wilhelm Ropke argues thus:

"What will happen when these individualist motives induce people to do things which are manifestly harmful to others? ... Is it enough to appeal to peoples' enlightened self-interest to make them realize that they serve their own best advantage by submitting to the discipline of the market and of competition? The answer is decidedly in the negative. The market is not enough. Granted that market economy is not enough, where is the answer? It is in self-discipline, a sense of justice, honesty, fairness, chivalry, moderation,

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public spirit, respect for human dignity, firm ethical norms—all of these things which people must possess before they go to the market and compete with each other. These are the indispensable supports which preserve both market and competition from degeneration. Family, church, genuine communities, and tradition are their sources."

Despite his eloquence one wonders whether Ropke is answering his question logically at all, and he seems to be merely appealing to "enlightened self-interest which he so decidedly repudiated as not enough earlier. This discussion leads us to the economic policy in the stimulation of free competitive trade for the good of all and the role of government or state in such stimulation, for everyone and every society in each new epoch of its life, must seek a viable and satisfying faith to live by, a faith which without unreason can be held as true, with enough conviction to give life stability and vigor, and yet with enough flexibility to permit adjustments to new conditions, desires and insights.

B) The Role of the State and Economic Policy.

In recent Western history, two concepts have been advocated as to the role of the state. One such concept is Spencer's theory of individualism and survival of the fittest, following the patterns of Darwinism, and the state is a mere "police" state and a "necessary evil."

"Individualism is the face of Helen that launched the thousand ships of Western Civilization... Political democracy, Protestantism, Capitalism, Science and the new learning are, in important ways, aspects of one and the same "historic trend." They all herald the rise of individualism and the decay of authority, which marked the passing of the Middle ages." 21

The ideal picture was that of a free society in which the welfare of the individual was the supreme goal and was subject only to the equal right of all other individuals to the maximum measure of happiness. It was a society, moreover, in which the individual was acknowledged to be the best judge of his own interests. The sole rightful function of the state would be to "police" freedom against force and fraud with minimum and inconspicuous intervention and to also maintain law and order in the society. The influence of this concept is discernible in the era of rugged individualism of early America marked by what is commonly hailed as the Protestant Ethic. This each-for-himself is expressed by Mr. Henry Clews in the following way:

"Under this free system of Government, whereby individuals are free to get a living or to pursue wealth as each chooses, the usual result is competition. Gloriously then competition really means industrial freedom. Thus anyone may choose his own trade or profession, or if he does not like it, he may change. He is free to work hard or not; he may make his own bargains and set his price upon his labour or his products. He is free to acquire prosperity to any extent, or part with it. By dint of greater effort or superior skill, or by intelligence if he can make better wages, he is free to live better just as his neighbor is free to follow his example and

to learn to excel him in turn. If anyone has a genius for making and managing money, he is free to exercise his genius as another is free to handle his tools. If an individual enjoys his money, gained by energy and successful effort, his neighbors are urged to work harder, that they and their children may have the same enjoyment. 22

"It was an exuberantly optimistic ethic. If everyone could believe that seeking his self interest automatically improves the lot of all, the application of hard work should eventually produce a heaven on earth." 23

Very obligingly, Mr. Henry Clews pictures this "heaven on earth" in his flowery exuberance of verbosity:

"America is the true field for the human race. It is the hope and asylum for the oppressed and down-trodden of every clime. It is the inspiring example of America—the peerless of the nations of the earth, the brightest star in the political firmament—that is leavening the hard lump of aristocracy and promoting spirit throughout the world. It is indeed the gem of the ocean to which the world may well offer homage. Here merit is the sole test. Birth is nothing. The fittest survive. Merit is the supreme and only qualification essential to success. Intelligence rules worlds and systems of worlds. It is the dread monarch of illimitable space, and in human society, especially in America, it shines as a diadem on the foreheads of those who stand in the foremost ranks of human enterprise. Here only a natural order of nobility is recognized, and its motto, without coat of arms or boast and heraldry, is intelligence and integrity!" 24

Without going into the merits of the pictured paradise of Clews, it is worth while to note the enormous influence of Spencer's theory of individualism and survival of the fittest on American ethos, so much a part of the legacy of frontier days of struggle.

23 Ibid.
24 Ibid.
The tree of traditional libertarianism bears its roots in this concept of individualism and the theory of survival of the fittest on the basis of competition and Darwinian theory of natural selection. The concept of liberalism is that all relations between men ought ideally to rest on mutual free consent and not on coercion, nor on the part of "society" as politically organized in the state. Liberalism is founded on ethical individualism and political negativism. 25 The state is the Leviathan, the super-enemy of freedoms. As Lord Acton pointed long ago:

"Whenever a single definite objective is made the supreme end of the state, be it the advantage of a class, the safety or power of the country, the greatest happiness of the greatest number, or the support of any speculative idea, the state becomes for the time, inevitably absolute." 26

To the traditional liberal, barring inconspicuous intervention of the state, any conspicuous coercion of the state in the form of law and so on, irrespective of its merits, constitutes the rape of economic freedom and individual liberty, with the result it is hailed as the "road to serfdom." The libertarian Utopia of a market economy is a happy hunting ground of individuals engaged in the pursuit of their individual interests in their own ways and means. Hayek rationalizes this aspect thus:

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25 See Freedom and Reform.

"The fundamental assumption, here as elsewhere, is the unlimited variety of human gifts and skills and the consequent ignorance of any single individual of what is known to all the other members of society taken together. Or, to put this contention differently, human reason, with a capital R, does not exist in the singular, as given or available to any particular person, as the rationalist approach seems to assume, but must be conceived as an interpersonal process in which any one's contribution is tested and corrected by others. This argument does not assume that all men are equal in their natural endowments and capacities but only that no man is qualified to pass final judgement on the capacities which another possesses or is to be allowed to exercise."  

Thus individual interests and freedom should not be surrendered at the altar of "society". Here John M. Clark admonishes that:  

"Irresponsible power leads to either chaos or coercion. As I have said elsewhere, a state cannot surrender to chaos, but it may lose its liberal character in combating it. So, the objective is to establish ways of acting which may relieve Government from facing this hard alternative."  

But any centrally planned economy would spell disaster to a liberal society. Gordon Walker, a former British minister of labor, warns that:  

"Once the state discharges on behalf of society the main social obligations that attach to wealth (i.e. introduces full social security) then industry, whether in public or private hands can without scruple regard man at his place of work as economic man and nothing else . . . It can concentrate solely upon the end of economic efficiency."  

H. M. Oliver Jr. regards state intervention as a futile measure:  

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27 Individualism and Economic Order, p. 15.  
"Moreover, since interventionist measures are even more
directly self-defeating, their results cause governments to
intervene again and again until the final result is a
completely state controlled economy."\(^{30}\)

To Hayek, socialism (as a method), collectivism or planning
although often defended as a means of achieving a "new" economic
freedom must involve not only the end of true economic freedom
(such as choice of occupation), a conclusion which should be
obvious, but also the end of personal and political freedom.\(^{31}\)

Furthermore H. M. Oliver points out that:

"The problem of freedom is the obverse side of the problem
of power. Power enables a man to coerce, by making others
dependent upon him. Thus, to be free means not to confront
power. For men living in society, complete freedom is of
course impossible, since we are all dependent upon one
another, but we can approach maximum freedom by so arranging
distribution of power that everyone possesses only a trivial
share. Mid-nineteenth century liberalism sought to
realize this attainable maximum, but did not actually
achieve it. Liberty prevailed in the legal-political sense,
but laissez-faire policies allowed the widespread growth
of monopoly and oligopoly; that is, of entrenched market
power."\(^{32}\)

Knight recognizes the errors of the liberal age with its
over-emphasis on freedom, to the neglect of other principles,
which are "partly responsible for the reaction we now witness,
which threatens the extinction of freedom." Knight admits that:

"A free and highly organized society does afford wide
opportunity for the abuse of power; and it is inevitable,

\(^{30}\) "Von Mises on the Harmony of Interests." \textit{Ethics}. Vol. LXX,
No. 4 (July 1950), p. 289.

\(^{31}\) See \textit{Road to Serfdom}.

\(^{32}\) "Ordo and Coercion; A logical critique." \textit{The Southern
"while men are imperfect, that many will yield to the temptation. In modern liberalism the emphasis on freedom has also tended to be extreme and uncritical and this has encouraged irresponsibility; and it has also encouraged undue emphasis on getting power, in comparison with reflection on the ends and values for which power is to be used."  

Knight recognizes the fact of an imperfect market, where:

"... the state is to preserve freedom, it must assume equality in that sense, or at least act to prevent "too much" inequality; and that duty becomes the main guide to rightful economic policy."

Knight raises the issue of economic policy:

"The truth clearly is (I think) that the central issue of economic policy is the distribution of power between individuals (families and other actual units or organizations) and between these and the community, ultimately the sovereign state. This is the concrete form of the issue as to how far "society" ought to go in the direction of one or the other opposite extreme conceptions of freedom or what is 'effective' and 'desirable' freedom."

Knight 'ducks' the issue in his forceful way:

"We do not know, either what are the right ideals, or how the social-economic progress works and what it can be expected to bring forth in the absence of interference or how to interfere 'intelligently' with its natural operation and development." 

But it must be said to the credit of Knight that he was prepared to bring liberalism down to the "impurity" of the earth from its high utopian pedestal of "purity" by realizing the

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33Freedom and Reform. p. 172.
35Freedom and Reform. p. 75.
shortcomings of the early libertarian arguments of a free market economy and thus pave the way for "modified" liberalism. But other die-hard liberals like Henry Simmons completely rejected the middle way of compromise between strict old liberal utopia and full collectivism.

The other concept, as to the role of the state, which has assumed prominence, is that of a "Welfare State" or the "New Deal." This concept forms the cornerstone of the contemporary liberal or neo-liberal thought and the essence of 20th century liberalism. This neo-liberal thought generally lacks the anti-state overtones of its predecessor and the dogmatic defence of economic freedom and individualism of its former counterpart. There is a certain exalted "flexibility of approach" to economic policy as a result of economic and cultural change that it has been hailed more "pragmatic" than "dogmatic." The plea of J. M. Clark for a balanced pragmatic approach in economic affairs is indeed refreshing:

"Let us have Private Enterprise, where that is most effective; Public Enterprise where that is most effective; governmental and legal frameworks to prevent unreasonable fluctuations or intolerable inequalities and let us remember that the fundamental object of the economic system is not the production of commodities, which are merely intermediate goods, but of rich and interesting human lives. Let us beware of ideologies, whether of rigid laissez-faire or doctrinaire socialism; let us treasure freedom of the individual, but not be afraid to limit it by law in the interest of greater freedom for all, and let us inculcate the habit of responsible behaviour, without which freedom inevitably destroys itself." 36

Such sagacity and such words would have been blasphemous in the individualistic era at its high watermark in the 18th and 19th centuries.

The welfare state concept marks a definite departure from Spencer's concept of the survival of the fittest. The role of the state is not merely to "police" freedom against force and fraud, but also to promote the welfare of society. That a market economy subject to the cycles of booms and depressions, monopolistic, and oligopolistic practices and powers, and unequal concentration of economic power, which are far removed from the "complete competitive system" of earlier liberalism, calls for a certain amount of regulation, is realized by this latter group of liberal thinkers and here who else is better suited to discharge its duty in the promotion of welfare of the individuals and the community than the "government of the people, by the people, and for the people?"

The concept of welfare state constitutes democratic statism and here is the fundamental dichotomy between individualism and statism and here we see the rise of "Social Ethic" and the decline of "Protestant Ethic." The state is no longer the Leviathan, the archenemy of freedoms. Whatever measures the state resorts to are measures to preserve the competitive market system by curtailing the power of the more powerful for the overall benefit of the powerless and the free economic system. The neo-liberals dislike monopoly even when the monopolist behaves benevolently. Under this concept:
"The only complete freedom that the individual can hope for is the freedom to share equally in the establishment of the controls under which he and his fellows are to operate. And this is democracy. The form of government and the type of economic organization thus decided upon are secondary."37

We must develop a new alternative—a somewhat novel social order adapted to meeting the needs of the times, and avoiding both the extremes of pure individualism and of full collectivism. The middle way of compromise lies in liberal capitalism as pointed out by O. H. Taylor:

"In the proper, general and flexible sense, liberal capitalism, according to my faith, in its various and ever changing approximate imperfect realizations, is a necessary part of all modern and hereafter possible, tolerably free, humane and rational civilization!"38

The departure of modern liberal thought, in the light of economic changes, from the earlier one finds expression in Taylor while reviewing Clark's "Alternative to Serfdom."

"In the initial discussion as to what results Americans of today in general want from their economic and social system and public policies, one key point is the position taken that they are, actually and rightly, rather less eager for increasing abundance of economic goods than they are for some intangible, non-economic "goods." These latter include, above all, those vaguely covered by the "security:" an improved stability of the economic system and of their own and other positions, incomes etc., some guaranteed or protected minima, and the psychological 'security' or comfort of a sense of "belonging" to groups and to a community both friendly and


38Economics and Liberalism., p. 295
"powerful enough to relieve them in a measure of the strain or pure, lonely self-reliance in a world full of hazards . . . This underlies our moderate deviations from old liberal orthodoxy in which a key element was and is the austere conviction that all men ought to be extremely self-reliant individuals and individualists and 'sensibly' more eager for the fullest freedom, opportunity and economic progress than for the consolations of 'security.' 39

Clark also opines that we cannot construct a workable society if we expect its members to be fully "rational" and spontaneously socially good (at once competitive and cooperative in the right ways and measures) and without inner jungles of strong impulses requiring careful social control, and certain, if wrongly controlled, to produce grave social disorders. O. H. Taylor points out the "ills" of our affluent society in another light:

"The fundamental causes lie, . . . in excessive frustrations of peoples' non-economic and non-rational but inevitable natural, human and legitimate in emotional needs; for sufficient, tolerable degrees of relative stability, continuity, and security, not of their incomes alone, but of their local, personal, family, and group and community ways of life . . . Frustration of emotional needs of this sort produces a dim sense of living in an ugly, greedy, quarrelsome, hostile world; and the hatred produced by fear is directed at capitalism, the competitive system, big business as the source of innovations necessitating change or adjustment and disturbance everywhere, and the supposed absence of sufficient public control as the explanation of the felt and hated qualities of the social environment. In short, my notion is that we need to collaborate with the investigators in the young psychological and social sciences that try to study the emotional side of the individual and social life; and try in joint efforts to learn what conditions of life are required for tolerable emotional health and contentment or serenity, and how prevailing practices in free economic society might better provide or permit such conditions without undue interference with economic requirements." 40

40 loc. cit., p. 310-11.
The modern liberal thought holds the middle way of compromise between liberal Utopia and complete collectivism in view of the market changes. In the process of suppressing the power of the powerful groups, government has assumed more power and control, mostly through legal measures in order to perpetuate free trade and competition. In this country, in view of the character of its well-established political system and traditions, the notion of a sheer lust for power in the elected and appointed officials as a serious danger to the freedoms of the governed is a ridiculous myth. The role of state is increasing in economic affairs of the society and it is not my intention to pass any moral judgement on the case.

Having explored the "libertarian apologetics" for a market economy and competitive economic system, we have reached an interesting stage where we set out to examine the libertarian position with regard to the role of Christianity in the free market economy. Their logical plea for rationalism puts them in an opposite school of thought—the growing "Christian apologists."

(C) The Role of Religion.

As stated earlier, liberalism is a religion of irreligion and a "faith" based on "blind" opposition to "blind faith." Historians like Nehru and others lay the blame for "the Age of Darkness"—
"original sin" in the Middle Ages as Knight calls it—squarely on the shoulders of Christianity, and the redeeming "light" was the rise of liberalism and individualism and political democracy. Among the liberals, Knight is particularly critical of Christianity:

"Christianity had a reasonably fair trial at ordering the world and individual life for a 'millennium' or so, and the result was very different from the kingdom of God on earth. The period in fact is commonly referred to in history text books as a 'Dark Age' between two civilizations. The Christian Church itself, from the time of its secure establishment (specifically in Western Europe) progressively ceased to practice the doctrines of original Christianity, such as love, non-resistance, and taking no thought of the morrow. It taught others to obey, while it commanded; it aspired to be, and without scruple used all its power to become a political power system, an imperialistic state."41

It is said that Christianity, as practiced today, is not the simple religion of Christ, but a religion about Christ as preached by the priests and the consequences of this transfer from the divine perspective to human perspective are not altogether quite happy. But it must be said that the fault does not lie in religion but in the men who practice it.

"In the course of time, no very long period historically speaking, the struggle of the individual for both religious and economic freedom led progressively to victory. The victory carried with it, the establishment of political freedom or individualism in the shape of democratic government, representative in structure and committed to the ideal of maximum individual liberty. The role of government, even in the freest, most democratic form, was to be minimized."42

42Ibid.
The liberals view the concept of freedom as an ethical ideal and the end being maximum efficiency within the walls of minimum politico-legal coercion as manifested by the state. To the rationalists, Christian doctrines provide no guide to meet the complex problems of enterprise economy.

"... the issues in modern civilization present intellectual problems, and cannot be fruitfully attacked in terms of the ethics of love, or any sentimental-personal morality."  

Knight is highly skeptical that any applicable rules can be derived:

"Christianity is exclusively an emotional and personal morality; and this, while unquestionably essential, does not go beyond providing or helping to provide the moral interest, motive or 'drive' toward finding solutions for problems ..."  

"The general idea that love is no solvent of problems or reliable guide to conduct is perhaps the best brought out example by relations within the family ..."  

"The problem is rather that of loving in the right way, or expressing affection in the 'right,' meaning 'wise,' conduct."  

Knight also repudiates the Golden Rule idea of doing as one would be done by:

"In most real situations, intelligent people know that the 'other' not merely does not want what we would want in his place, but also that what he wants is not what is good for him, or for the world, and that to give it is not the right course of action ... The solemn fact is that what people most commonly want for themselves is their 'own' way, as such, or especially power."  

Knight points out the ethical dualism of the market:

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43Freedom and Reform, p. 46.  
44loc. cit., p. 103.  
45loc. cit., p. 107.  
46loc. cit., p. 108.  
"The spirit of life in the 'Christian' nations and the spirit of Christianity offer an interesting study in the contrast between theory and practice. And all the while, there are multiplying evidences of a genuine spiritual hunger in the modern peoples. They have got away from the spiritual attitude toward life, and do not know how to get back. Science is too strong for old ideals of simplicity, humanity, and reverence. . . . This ethical dualism is suggested by the vernacular expression 'business is business,' meaning that business is one thing and 'charity' another. There is a strong feeling that it is 'right' to 'play' the business according to the rules to make exchanges at the ratio abjectively set or made possible by the market. That is, it is assumed to be ethically legitimate and even positively virtuous, to desire to maximize one's 'income' as defined above, and to act in such a way as to do so, subject always to the sweeping reservation of mutual free consent in all relations with others."\(^48\)

Knight is highly critical of the current trend of posing Christian values in business and suggests that it would be wise if "business is business:"

"... the dualistic principle must be accepted whole heartedly ... if the kind of civilization we call free is to exist. Business must be separated from 'charity' meaning all personal considerations. The principle of business-is-business is on a par with that of justice-is-blind, though both must be seasoned sometimes with mercy. Moral obligations to persons in consequence of special relationships is the general principle of feudalism, and is anachronistic and disruptive in a commercial or enterprise economy."\(^49\)

Knight calls for sportsmanship in place of charity and advocates the theory of game to meet the ills of the imperfect competitive system. His own code emphasises self-reliance, non-interference, and "fair" competition. Further he contends:

\(^{48}\text{Freedom and Reform, p. 57}\)

\(^{49}\text{"Theory of Economic Policy and History of Doctrine." p. 284.}\)
"I hope I am opposed to mysticism and theology... I hold freedom is a value on its own account, both a desideratum and a right, and even a 'duty' in addition to its instrumental import through superior reliability of the individual's judgement of his 'values' over that of any politician or ecclesiastic likely to be in power, even in a democracy."\(^49\)

He agrees that:

"Socialists and Communists have called religion the opiate of masses, and in a broad historical sense that is correct."\(^50\)

He argues that the plea of communism like that of Christianity is justice under absolute authority, ignoring freedom, and communism in its social program and pretensions is largely a revival of historical-ecclesiastical Christianity with the church more effectively merged in one all-powerful state. To Knight, Christianity is a supreme "irony of history:"

"That an original teaching centered ethically in humility, meekness, self-denial, and self-sacrifice became organized into corporations whose dignitaries have hardly been matched for arrogant grasping, using and flaunting power and wealth and for insistence on prerogative to the borderline of worship."\(^51\)

This does not mean that the libertarians are opposed to religion as such. Quite the contrary, the libertarians are prepared to grant the individual the free choice of religion, but their irritation and indignation is aroused when Christian doctrines like love, meekness etcetera are introduced in the "rational" economic


\(^{51}\)Loc cit.p. 24-25.
models of market economy. Any sentimental approach is hailed vicious and pernicious in so far as it distracts attention from rational analysis and the discovery and application of effective procedures. Hayek points out:

"That religion itself does not give us definite guidance in these matters is shown by the efforts of the church to elaborate a complete social philosophy and by the entirely opposite results at which many arrive who start from the same Christian foundations. Though the declining influence of religion is undoubtedly one major cause of our present lack of intellectual and moral orientation, its revival would not much lessen the need for a generally accepted principle of social order. We still should require a political philosophy which goes beyond the fundamental but general precepts which religion or morals may provide." 52

Self-seeking and self-reliance are the basis of the individualistic philosophy of enlightenment. Intellectuals have rationalized self-seeking as Adam Smith wrote:

"It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard of their own interest." 53

"The new gospel of individualism", proclaims T. N. Carver, "must . . . proclaim being—allowing those to prosper, who, on their own initiative, find ways of serving the community, and allowing those who cannot, to endure the shame of poverty." 54

To Carver:

"The kingdom of God is kingdom of productive power at work . . . The Unproductive . . . means the immoral, the Unchristian . . . That only is hateful which interferes with productive action."

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52 Individualism and Economic Order. Modern Library Inc.,
Defending competition he says:

"... there is no greater mistake than to assume that competition and rivalry are incompatible with human brotherhood. One would find it very difficult even to amuse oneself without some form of competition." 55

But when "ideal" conditions of libertarianism are not present J. M. Clark draws the conclusion:

"... one's economic dealings are matters of vital interest and ... obligations of good citizenship apply to them directly ..."

To the rationalists, and individualists, the business of minding "others'" business is irrational, as forcefully expressed by H. M. Oliver Jr.:

"... an economy in which men were unreasoning altruists, generally paying more attention to other persons' business, than to their own, would be inefficient as well as 'irritating.' Behavior of this variety would be inefficient and irritating in politics as well as in market." 56

O. H. Taylor rationalizes the libertarian argument thus:

"The ceterus paribus phrase that qualifies our fundamental assumption must never be forgotten. Men do not pursue financial gains only, to the exclusion of other objects of desire. The number, quality, and strength of non-pecuniary motives that interplay with the desire for gain, and check or modify it may be indefinitely modified by legal, religious, intellectual and moral influences. Actions can


"be induced by making them respectable or honourable or pious as well as by making them profitable. "Mechanistic" economists have not generally denied this. Their use of "laws" of the most-profitable-action to explain prices and other economic phenomena, therefore, does not prove that they ever wished to put economic life outside of the sphere of the moralist . . . If modern capitalism, modern liberalism and modern civilization, in general are to be regarded as the products of a new religion that arose in the seventeenth century, that religion has inculcated humanitarianism as well as the economic virtues."57

Thus we have seen that the "libertarian apologists" clash with the "Christian apologists," whom we shall discuss presently. Libertarian arguments for a market economy with free and 'fair' competition, non-interference, individual freedom constitute a "libertarian apologetic" and we shall pass on to examine the other school of thought—the moralist school of thought of Selekmian and the new business moralists.

57Economics and Liberalism, p. 35.
CHAPTER IV

THE NEW BUSINESS MORALISTS--A CRITIQUE

(a) The Doctrine of Responsibilities.
(b) The Quest for a Moral Philosophy.
(c) The Role of Religion.

In contemporary American business experience we see the rise of another school of thought—the moralists' school, who draw their inspiration from the heritage of Judaeo-Christian ethics of Western Civilization. This new school of thought presents what may be termed as a "moralist apologetic" or a "Christian apologetic," which is a vehement repudiation of the "business-is-business" principle of "libertarian apologetic" and which is an eloquent plea for "humanization" of business on the basis of the codes of Christian conduct. To the moralists business is not mere business, but something more with ethical and social implications of humanitarianism. The salient features of this school of thought center around: (1) the doctrine of responsibilities; (2) the quest for a moral philosophy; and (3) the role of religion.

(1) The Doctrine of Responsibilities

The lofty idealism of this school of moralists gains eloquent expression in the lofty style of Selekmnan:
"We are the children as well as the bearers of the Judaeo-Christian ethic and of the Graeco-Roman wisdom. The very life of reason and beauty expressed by the Greeks and the Romans, and the prophetic religion of the Bible are what we profess and would like to live by... The problem of putting our moral heritage into practice has the highest priority as a major counterweight in a world ominously overbalanced by material power."¹

"We all subscribe to the Sermon on the Mount, but do find its application very difficult. This is the eternal struggle of man, as it is his eternal aspiration."²

He proceeds prophetically:

"What will no doubt be recorded by historians as the ethical awakening of American business constitutes one of the dramatic developments of the past quarter-century. It has always been taken for granted that the American businessman was a moral and religious man, even though his daily practices might at times have been questioned. Up until recent years, however, it did not occur to businessmen to articulate the fact that what they did had moral goals.

A NOTE:

In the light of the strategic and influential position of modern enterprise (corporation) and with the rise of the profession of management, this new school advances the doctrine of responsibilities, which is similar to the familiar doctrine of trusteeship. The range and scope of the doctrine encompasses progress, cheaper and better goods and services to the consumers for a richer and happier life; the opportunity of self-development and human fulfillment to the employees; free and fair competition in the market structure; community service and national purpose towards the government.

The responsibilities of business are increasing day by day so much as to embrace the aims of man's life, as opposed to the libertarian arguments, where the individual is absolved of these burdensome social responsibilities and obligations to the society and the nation and the world.


"Now just the opposite is true. An explicit moral attitude is expressed again and again in literature, in meetings of business groups, in missions that go abroad, and in the reception of delegates who visit us to get a better understanding of American methods. The expression takes various forms. The social responsibility of business is a favorite theme, some leaders indeed take the unambiguous position that "the corporation is a moral community." ³

This idealism of the moralistic philosophy is a marked departure from the rationalism of the individualistic philosophy.

"Hundreds of leading businessmen have publicly affirmed, in speeches and by the written word, their keen sensibility of their 'social responsibilities', reports Howard A. Bowen, in his church-sponsored study. He continues: "Indeed, discussion of the 'social responsibilities of business' has become not only acceptable in leading business circles, but even fashionable . . . the experience of the thirties, combined with world wide tendencies toward social control and socialization of business, had led businessmen to think deeply about the conditions which must be met if the private-enterprise system is to continue as the basic organization of this country." ⁴

Ralph Cordier, the president of General Electric Company, writes:

"In defense work, in community and educational affairs, in serving the public interest, General Electric is constantly re-examining its responsibilities. As society changes, we are trying as hard as we know how to respond thoughtfully and creatively to the social responsibilities of a new age." ⁵


⁵New Frontiers for Professional Managers., p. 21.
Bowen lays the groundwork for the doctrine of social responsibilities thus:

"... an overwhelming proportion of business is done in firms which have some independence of action in matters of action in matters of production, price, sales, income distribution, finance, personnel, etc. This applies not only to the several hundred great corporations which account for a major fraction of American business activity but also to many thousands of small and local businesses. The typical condition in American business is a significant degree of action in these matters."

"When the far-reaching scope and consequences of private business decisions are recognized, some questions naturally arise: Are businessmen, by virtue of their strategic position and their considerable decision-making power, obligated to consider social consequences when making their private decisions? If so, do they have social obligations that transcend obligations to owners or stockholders?"

"The answer to both these questions is clearly, yes... And it is becoming increasingly obvious that a freedom of choice and delegation of power such as businessmen exercise would hardly be permitted to continue without some assumption of social responsibility. True, we do not necessarily depend entirely, or even largely, upon a sense of social responsibility to secure socially desirable behavior on the part of businessmen. Businessmen are controlled by competition, by custom and by law. Nevertheless, we do and must depend also on their assuming a large measure of responsibility if the economic system of free enterprise is to continue and prosper." 6

The moralists submit that the acceptance of obligations to workers, consumers, and the general public is an essential condition for the survival of the free enterprise system. In recent years, business leaders, economists turned ethicists, and churchmen alike have displayed an increasingly great emphasis on businessman's social responsibilities. The doctrine of

6Social Responsibilities of the Businessman., p. 108.
responsibilities is just one facet of the new school of thought, which rejects the older philosophy of rugged individualism as expressed in the words of Rev. Cronin:

"The basic trouble with American economic life is that it is disorganized . . . It is vainly expected that a sound and consistent order will result from conflict."

"A philosophy of secularism, materialism, selfish individualism, greed, avarice, limitless ambition, and denial of social interests is bound to make society unhealthy."  

The contributing economic factors to the doctrine of responsibilities are the separation of ownership and management of business and the rise of the professional managers, the need for a 'new' justification of free enterprise after the unhappy consequences of the depression and enormous increase of power of business as a result of the oligopolistic system of economic order in America.

"Many today see in the corporation," writes Eells, "a nucleus of 'power' and demand that it use that power 'justly.' The corporation has, in this sense, a social responsibility to conform to the dominant ethical code, even though to do so may be expensive. Many declare that there are corporate obligations that have nothing to do with the expediencies of good will or the profit position of a company. Managers often share this belief. Businessmen thus internalize society's dominant values as premises for policy decisions which cannot be called ego-oriented in any narrow entrepreneurial sense."

Furthermore he points out:

"There is said to be a widespread managerial fear of hostility toward big business, especially among some intellectual leaders. The managerial class, it is pointed out, has become
"defensive in the face of gradual encroachments upon its role as the responsible director of enterprise. Labour unions have moved in from one side and government from the other. Not the least, the examples of totalitarianism abroad challenge businessmen to assume leadership in fields which might otherwise be taken over by public government."

"Whatever the complex of forces and causes, we have a milieu that favors socially responsible business institutions. This climate of social responsibility is sensed by corporate management. It is real and pervasive, and it is central to the emergent philosophy of business in this country."

When it comes to defining the social responsibilities, the doctrine becomes hazy and all-embracing, ranging from good and cheap goods and services to the development of the individual and the community. The problem of this doctrine is expressed by Richard Eells as follows:

"The dilemma of corporate responsibilities in our dynamic social environment is in one sense a choice between resistance and receptivity. To resist the many new claims made upon the corporation is to assume an eminently respectable position grounded upon the logic of property; but rationality here may not turn out to be reasonableness. Reasonable regard for the public interest is a practical necessity."

The moralists also admonish that rejection of this doctrine of social responsibilities, in spite of its pervading haziness, and its "principle of feudalism" according to Knight, might spell the eclipse of the corporation as a business institution.

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8 The Meaning of Modern Business., p. 73.
9 loc. cit., p. 76.
Although the current trend in American business enterprise is towards the acceptance of this moralists' doctrine of social responsibilities, the doctrine is not without its share of contemporary critics, who question the implications of this doctrine.

Theodore Levitt in his article, "The Dangers of Social Responsibility," characterized the doctrine as a:

"canonistic exposition of a new orthodoxy—the era of 'socially responsible enterprise'—... The function of business is to produce sustained high-level profits." The essence of free enterprise is "to go after profit in any way that is consistent with its own survival as an economic system." The way that is consistent is the way of the pluralistic society: "division, not-centralization, of power; variety, not unanimity, of opinion; separation, not unification, of workaday economic, political, social and spiritual functions."

He fears that this doctrine of responsibilities is leading us down the road to a new feudalism. This position of Levitt is not dissimilar to Knight's; but the only difference is that Levitt would leave the social responsibilities to a Welfare State.

Milton Friedmann argues that there is one and only one social responsibility of business and that is:

"to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, within the area of free, open, and honest competition and striving for gain."

Friedmann declares:

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"If anything is certain to destroy our free society, to undermine its very foundations, it would be a widespread acceptance by management of social responsibilities in some sense other than to make as much as possible ... and this is a fundamentally subversive doctrine."

J. A. Livingston ridicules:

"management's responsibility, in the broadest sense (to be) a good citizen!" exclaims Livingston in a condescending tone, "the corporation now has a new identity apart from profit making, apart from its charter, by-laws, and legal trappings, apart from its shareholders. It is Good Citizen, Inc.! And the corporation executive comports himself to reflect that corporate citizenship. He wears his church clothes every day, not just on Sundays. In his paneled office, in his travels about the country, in his community relations, he represents, not himself, but The Corporation. He represents, not the stockholders, but The Corporation." The stockholder is reduced to a "residuary beneficiary of Good Citizen, Inc."

In spite of the dissenting voices and views about the doctrine of responsibilities, the doctrine has come to stay with American business enterprise and it is a part of the "industry in search of an ideology."

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(b) The Quest for a Moral Philosophy.

The moralist school of thought points out the necessity of a moral philosophy for business, apart from individual freedom and self-seeking and competitive conflict. Selsetman expresses the need for a moral philosophy—an ethical justification of enterprise:

"The relationship between power and morality presents an issue of the utmost urgency for business managers. The lesson of history is unmistakable: no person and no group had held power very long unless it was sooner or later invested with moral values and moral purposes. Empires, kings, and dictators may have enjoyed tremendous power and cut a wide swath for a while, but were dethroned or defeated when their self-aggrandizement and self-seeking betrayed the fact that they lacked moral purpose. Businessmen face this ancient truth and familiar dilemma. Here is a vast new profession management. No group in history has wielded the power that management in the typical corporation does today. A handful of people hold sway over standards of living, chances to work, and the welfare of the community, the nation, and the world."\(^{13}\)

He continues:

"A change in the social and moral climate of our times has made it impossible to be content with letting matters rest at this point of competition and amximizing profits. Nowadays, individual institutions and national cultures are inter-related, and the ways in which American business has been characterized in the past are no longer adequate. ....... In recent years, businessmen have come to realize that they must find a way of interpreting themselves in a manner which would make our industrial system consistent with American democracy and the Judaeo-Christian tradition.

\(^{13}\)"Power and Morality in Business." p. 66.
Thus the term free enterprise system has come into use as a way of characterizing American business and industry. It is put forth as part of the American way of life. One of the basic tenets of those who advocate this system is that it allows for individualism; for individual businessmen to use their initiative to raise capital, to build plants, to engage labour, to make their product or service, all in competition with one another. But although superior to the old 'tainted' term of capitalism, the free enterprise system still does not connote the idea of a movement in which people bind themselves together to transcend competitive interest in order to achieve a common goal. So the search for a moral philosophy continues.

He points also to the causes:

"Behind this search are two primary causes: the hostility directed against business beginning with the great depression of the thirties, and the growth of a new professional management class, as distinguished from the owner-manager of former days, who built his own business, was the principal stockholder, and ran it either by himself or with those whom he took in as partners. Recent decades have witnessed a veritable explosion in business education, with large enrollments in business schools affiliated with universities. Association with a university immediately projects any calling on a technical and moral plane, with the challenge to meet standards already established in the older professions of law, medicine, engineering, architecture, the ministry, and teaching. With the concept of a profession comes also a self-consciousness, a desire to develop standards of technical performance as well as an ethical code, both of which give dignity and stature to those who enter the calling. Indeed, in every profession these two concepts have been implicit since the earliest days." 14

We are told by the new business moralists, that as a profession acquires a body of knowledge and a scientific method, it is also confronted with the need to develop a code of ethics and a continuing sense of responsibilities to the community beyond the executive office.

14 A Moral Philosophy for Management, pp. 4-5.
The moralists reject the familiar slogan "business is business" for it reflects a maximum absence of moral tension. But why should the concept of morality be introduced into business operations? They answer that introduction of morality and a moral philosophy in the free enterprise system is merely a practical and pragmatic approach:

"No matter how good their intentions, business managers cannot win acceptance for their professional conduct unless they establish a moral basis for their actions. Businessmen must give moral value to power because the minute they organize it, they begin to deal with and are dependent on other human beings. Investors, customers, employees, all become involved, establish interests, and exert moral pressures which can be translated, as we have seen, into political pressures. Thus businessmen must find an appropriate moral framework within which their power can operate."^{15}

The moralists, who hail the corporation as a moral community, raise the status of the corporation to that of a multi-functional institution that takes on more and more of the comprehensive responsibilities of man in his society. But so far, in the history of Western Civilization, only two institutions have assumed this role of majesty and burden—the Church and the State. The old slogans "honesty is the best policy" and "Trust is the basis of business success" are revived in order to inculcate ethical and responsible behaviour.

Dean Stanley F. Teele of the Harvard Business School declares:

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^{15} Selekman, "Power and Morality." p. 312.
"As we have learned more and more about a business organization as a social unit, we have become increasingly certain that the executive's skill with people—or the lack of it—is the determining element in his long-range success or failure. As we look ahead, we have reason to believe that this will be increasingly true. In short, the time may come when an evil man or one who has no clear sense of values simply cannot be an effective administrator."

The moralists claim that ethical and responsible managerial behaviour would increase the profitability of the enterprise in the long run—a concept which is called "the doctrine of Heaven-plus profits" by H. M. Oliver.

In the words of Bowen:

"... Scientific studies have shown that good human relations in industry and good performance require, among other things, that workers be accorded the sense of dignity, vocation, justice, participation, etcetera, which every humanitarian wants them to have."

H. M. Oliver, who observes that the business defense of ethical behaviour is in large part the creation of management specialists, takes the above report of Bowen with a grain of salt and observes with good humour and scholarly wit:

"That the findings have sometimes been extravagantly interpreted, so as to yield the conclusion that an ethical optimum provides a profit maximum, should perhaps be attributed to a general tendency of social science pioneers to overvalue their product. Classical economists thought that they had a better product in Laissez-faire than most economic historians

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16 Address Before the First Church in Boston, January 29, 1956.
17 Social Responsibilities of the Businessman, p. 94.
"now believe; in more recent years many 'Keynesian' economists have claimed much too much for their 'models' predictive abilities. Or perhaps the doctrine of heaven-plus-profits is traceable to what some foreign observers regard as the American's congenital tendency to oversell. It is hard to believe that, in their efforts to improve society, management specialists would 'do a Madison Avenue job' on business itself."18

The moralists, in their quest for a moral philosophy, derive their inspiration mainly from Christianity and the Christian code of ethics. Unlike the liberals, who take a dim view of religion, the moralists accord religion a significant role in their scheme of economic order.

18"Trends Toward a New Moral Philosophy for Business."
"In Religion and the Rise of Capitalism, British economic historian, R. H. Tawney traces the change in accepted doctrines of business ethics that took place during the Reformation and early modern periods. He says in summary:"

"When the age of the Reformation begins, economics is still a branch of ethics, and ethics of theology; all human activities are treated as falling within a single scheme whose character is determined by the spiritual destiny of mankind; the appeal of theorists is to natural laws, not to utility; the legitimacy of economic transactions is tried by reference, less to the movements of the market, than to moral standards derived from traditional teaching of the Christian church; the church itself is regarded as a society wielding theoretical, and sometimes practical, authority in social affairs. The secularization of political thought, which was to be the work of the next two centuries, had profound reactions on social speculation, and by the Restoration the whole perspective, at least in England, has been revolutionized. Religion has been converted from the keystone which holds together the social edifice into one department within it, and the idea of a rule of right is replaced by economic expediency as the arbiter of policy and the criterion of conduct. From a spiritual being, who, in order to survive, must devote a reasonable attention to economic interest, man seems sometimes to have become an economic animal, who will be prudent, nevertheless, if he takes due precautions to assure his spiritual well-being."

"The result is an attitude which forms so fundamental a part of modern political thought, that both its precarious philosophical basis, and the contrast which it offers with the conceptions of earlier generations, are commonly forgotten. Its essence is a dualism which regards the secular and the religious aspects of life, not as successive states, within a larger unity, but as parallel and independent provinces, governed by different laws, judged by different standards, and amenable to different authorities. To the most representative minds of the Reformation, as of the Middle Ages, a philosophy which treated the transactions of commerce and the institutions of society as indifferent to religion would have appeared not merely reprehensible, but intellectually absurd."¹⁹

¹⁹Henry M. Oliver. "Frends Toward a New Moral Philosophy for Business."
H. M. Oliver adds:

"England was not the only country where such an attitude was widespread. Americans substituted for 'trade is one thing, religion is another' the homelier phrase, 'business is business,' but otherwise the doctrine was transplanted with little change from its initial home."

C. H. Taylor feels that Mr. Tawney resents the above trend and along with the socialists:

"Mr. Tawney has given another version of socialist myth, that all capitalists are conscienceless and greedy and the liberals and 'bourgeois economists' are their flatterers and apologists."

It appears that the new business moralists, with their school of thought, which seems to be leading the present day economic order down the road to "Christian Socialism" and which repudiates the self-seeking spirit of liberalism as mere selfish "acquisitive" philosophy with no ethical norms, are transporting our present economic order back to the age of Reformation, where "all human activities are treated as falling within a single scheme, whose character is determined by the spiritual destiny of mankind" and where "the legitimacy of economic transactions is tried by reference, less to the movements of the market, than to moral standards derived from the traditional teaching of the Christian church," with slight modifications, which are not too impracticable in the light of changes in the market since the age of the Reformation. Mr. Underwood affirms his faith in Christian conduct:

20 Economics and Liberalism., p. 36.
21 Economics and Liberalism., p. 5.
"There are, of course, many perspectives on business ethics seeking to say this, but as a Christian ethicist, I am particularly impressed by the insight Christian thought gives to the experience of tension and conflict in life. The Christian faith affirms that man knows the nature of God and of ultimate reality in the unique person of Christ. The God Incarnate in Christ cannot be generalized into law or principle, a point I want to develop later. God cannot be subsumed under a person's own will. God is in tension with us, judging and transforming us, so that we work in harmony and unity with Him. He does this by love, not by generalizing our own unique individuality and personhood. In faith, we know this love to be mutual and reciprocating experience between persons with their own wills, potentialities, and perspectives. These are, according to the Christian view of community and business organization, brought into the fullest play in a give-and-take between men who are not expected to be like somebody else or to be absorbed into another's values and hopes, but are given the opportunity to make their own positive contribution to business and society."22

He adds benevolently:

"Indeed, today we must reach for a conception of justice which goes beyond a pagan quid pro quo, an eye for an eye, a tooth for a tooth, to some deeper Judaco-Christian awareness of a higher justice in which a variety of interests are molded and transformed by leaders into contributions to the life of the whole community."23

Unfortunately not many moralists are enlightened as easily as Mr. Underwood by Christ in facing the business problems. In fact they confess their difficulties in translating Christian codes of conduct into business decisions.

Selekman expresses the dilemma of what he calls, "the ethical ought and the technical must:"

23loc. cit., p. 213.
"Morally, a human is an entity in himself. He is God's son. His dignity is all-important. He has a right to fulfill himself and live in the community. In view of this, the businessman has a responsibility to provide maximum employment, good wages, healthy working conditions, and a higher standard of living. But man as labour is also a cost. Hence an employer may have to lay off his employees or shut down a plant on which a whole community depends and move it to markets or raw materials. This is a fearful undertaking, but the businessman must face this issue every day."

A similar issue was discussed at a Danforth Seminar at Harvard concerning a New England company moving South:

"Among the parties with interests in the decision were stockholders; salaried officials and key officials who would move with the factory; the great mass of workers; other persons in the New England Community; and the potential workers, merchants, and other parties interested in potential Southern locations. Which of these interests were the corporation directly morally obligated to consider? What relative weights should be placed upon each of the various obligations? The seminar participants could not agree. Nor was agreement any more nearly complete among the economists and preachers present than among the businessmen."

The problem of deriving a guide to business problems from religion is expressed by J. M. Clark thus:

"Religion starts with values so pure that they are likely to seem inapplicable in any economic and political life except one for which an earthly humanity is not yet ready. And if one tries to carry out some of these values in the world of politics, business, or trade unions, one faces the necessity of marginal adjustments between values of different sorts. But because these values have been presented as absolutes, not subject to compromise, the individual

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25 H. M. Oliver, "Trends Towards a New Moral Philosophy for Business."
"finds himself convicted of inevitable sin, no matter how selfless his motives and how clear his understanding, because, forsooth, he is acting like an economic man and weighing marginal increments of different kinds of values against one another."26

Moralists expressly staying in the Christian tradition also confess their difficulties in deriving rules from the fundamental Christian teachings. Thus R. H. Tawney says of both the Golden Rule and the economic ethic which the Church preached during the Middle Ages:

"Granted that I should love my neighbour as myself, the question which, under modern conditions of large-scale organization, remain for solution are, who precisely is my neighbour and how am I to make my love for him effective in practice? To these questions the conventional religious teaching supplied no answer, for it had not even realized that they could be put. It had tried to moralize economic relations by treating every transaction as a case of personal conduct, involving personal responsibility. In an age of impersonal finance, world-markets and a capitalist organization of industry, its traditional social doctrine had no specific to offer . . . ."

Or, as a former Archbishop of York stated the issue in 1941:

"We know the ultimate moral principle of all human relationships—'thou shalt love thy neighbour as thyself.' But we do not know at all clearly how this is to find expression in the relations to one another of corporate groups such as Employers' Federations and Trade Unions, or different nations, nor how it bears on the actions of trustees such as the Directors of a company or the Government of a country. We lack what one school of Greek moralists called "the middle axioms"—those subordinate maxims which connect the ultimate principles with the complexities of the actual historical situations in which action has to be taken."27

26 Economic Institutions and Human Welfare. pp.35-36.

27 See H. M. Oliver: "Trends Towards a New Moral Philosophy."
John Bennett puts across the point thus:

"The most harassing change of outlook that is required of us, both as a result of the experience that we have had in the past two decades and as a result of recent theological criticism, is the discovery that it is very difficult to relate the Christian social imperative to concrete decisions in the political order. There seems to be no direct line from Christian ethics to guidance that will determine what our next step should be in those areas where the next step seems most important." 28

He adds, however, despite the verdict of historians:

"Criticism and protest from outside Christian circles have often been a needed corrective for Christians. The radical movements for economic justice, the democratic protest against social hierarchies, the scientific concern for intellectual integrity, the belief in tolerance that stems from the Enlightenment have all been bearers of moral values to which Christians have been blind only too often, though these values have roots in the Christian tradition." 29

Oliver clinches this issue for the moralists thus:

"Religious leaders who say that the Church's 'duty ... is only to place economic affairs in the Christian perspective' apparently take about the same position as Knight when he argues that Christianity' ... does not go beyond providing or helping to provide the moral interest ... toward finding solutions for problems."

He also argues that businessmen are highly skeptical of deriving any "middle axioms:"

"for they hold that all that one can do is to approach a problem in a truly Christian spirit and try to reach a decision on a purely circumstantial basis." 30
Nevertheless the new business moralists talk of the modern corporation as a "moral community" and confer on the corporation a "corporate conscience" and raise the issue of "ethical ought" without giving the answer to the "technical must." But when it comes down to the solution of the modern complicated business issues, it appears that the moralistic philosophy is not far from the individualistic philosophy of the enlightenment, in spite of the lofty Christian inspiration professed by the moralists.

It is pointed out to us that the increasing interest in the human relationship aspect of business with its emphasis on "the whole man" is a product of the influence of this new school of thought. One wonders whether this is so or whether it is another manifestation—a little sophisticated in view of the sophistication of modern business—of the individualistic philosophy of enlightened self-interest and self-seeking.

This trend towards a new moral philosophy for business itself may be a novel form of sophisticated rationalization of business interests similar to the libertarian arguments.

One might well agree with Eells:

"This raises a dilemma that may well develop into the central ethical issue for business within the next decade. For in rejecting social responsibility the corporation may be in danger of eclipse, even as a business institution in the traditional sense, of the free enterprise society which makes its existence possible. And it is perhaps as a result of this uneasy conviction that, in the last few decades, business has taken on responsibilities that go well beyond not only
"its primary functions as responsible producer but well beyond its legal obligations. Company after company is moving into such socially oriented orbits as political participation, corporate giving, support of education, employee welfare, community relations—all activities which many critics still insist are tangential to their original economic functions: the protection and enhancement of 'owners' interests.'"31

While the libertarians propose to seek the aid of social sciences like Psychology, Sociology, etc., for the solutions of the growing complex problems and issues of business enterprise, the moralists advocate an approach of the Christian Spirit in spite of the absence of the middle axioms.

Here one would not hesitate to concur with Knight:

"But it is usually easy for the Christian Apologist to escape from any unpleasant implications, by alleging wrong interpretation of the meaning of the doctrine. It is perhaps better to leave this problem-field with the observation made at the outset that the actual role of religious professions and beliefs, to say nothing of religious 'practices,' in the working lives of men is one of the profound mysteries of history and of social life."32

So far we have accomplished our purpose of exploring the development of an American business apologetic from the point of view of two schools of thought—liberals and moralists, but our analysis would be incomplete without the consideration of the economic and cultural change in the light of the rise of two dominant institutions of America—management and labour, towards the development of an American business apologetic.

CHAPTER V

ECONOMIC AND CULTURAL CHANGE

(a) Intellectual Capitalism.

(b) The Paradise of the Proletariat.

Any study of the enterprise economy of America would be incomplete without a study of the impact of the economic and cultural change. In the study of economic and cultural change, it is the purpose of the writer to concentrate on management and labour and their influence on the development of an American business apologetic. First we begin with the evolution of the enterprise and the rise of management as a profession culminating in intellectual capitalism.

(a) Intellectual Capitalism:

No student of American business enterprise would dare dispute the following lucid words of Peter Drucker regarding the rise of professional management:

"The emergence of management as an essential, a distinct, and a leading institution, is a pivotal event in social history. Rarely, if ever, has a new basic institution, a new leading group, emerged as fast as has management since the turn of the century. Rarely in human history has a new institution proven indispensable so quickly; and even less often has a new institution arrived with so little opposition, so little disturbance, so little controversy." 1

1 The Practice of Management. pp. 3-4.
The rise of management marks the eclipse of 19th century capitalism and heralds the dawn of "intellectual capitalism." The entrepreneur of 1900 or before would be a hopeless novice before his formidable counterpart of today. The concern of the businessman of the bygone days was limited to prices of raw materials, manufacture of a few products needed in his community, standard wage rates, tariffs and the like and his business territory was confined to his surrounding locality, beyond which his vision was very limited. His methods were rule-of-thumb and hit-or-miss methods. He had no notion of stimulating demand and increasing business. He had no knowledge of the forecasting procedures, division of labour, line and staff organizations, human relations, international territories and the like, which are the major preoccupations of present day managers.

The end of one era marks the dawn of another era, even as "the old must give place to the new" and "new life must follow death." In this case the old capitalism of the owner-entrepreneur of limited vision has given place to the bright intellectual capitalism of unlimited vision, scope and ambition with the managers at the helm of affairs and with the owners of enterprise--the stockholders--taking the position of interested spectators. We might also note that the end of 18th and 19th century poverty has heralded the beginning of 20th century opulence in America.
Before we enter the portals of managerial enterprise proper, we have to bear in mind that one of the most important contributions to the scene of industrial reform and managerial revolution on America has been scientific management, so ably expounded by Frederick Winslow Taylor, popularly hailed as the "Father of Scientific Management," notwithstanding the protests of Taylor. In 1905, Taylor's contribution to the evolution of enterprise was a challenge to the existing methods of industrial operation, but was a much needed boost in the arm to capitalism itself.

In the words of Georges Friedmann:

"It is no accident that the birth of the first great system of scientific management coincides exactly with the date when, entering its new phase in the final decade of the 19th century, Capitalism needed this essential aid to set itself in order and pass beyond its internal self-contradictions. The fact that all his life, Taylor presented himself (and actually thought of himself) an engineer and nothing else, and that he protested his indifference to politics and his neutrality in the struggles of Capitalism of his day, merely shows how unconscious he was of the great currents by which the latter was agitated and, moreover, how little his subjective attitude interfered with the economic and social role played by the vast movement of which he was a pioneer. The determining laws of an epoch sweep along the most powerful individuals in spite of themselves, volentem ducunt, nolentem trahunt."²

Taylor explained that:

"The essence of Scientific Management is the great mental revolution on the part of management and labour as to their duties towards their work, towards each other, and towards community at large . . . This great change in attitude and view-point must produce results which are magnificent for both sides, just as fine for one as for another."³

Taylor proposed to investigate "scientifically" and systematically all the component parts of production process; to experiment with men and machines and measuring instruments like the stop-watch, the popular symbol of Taylorism. This reveals systematic organization and planning in place of no organization and planning. His four principles of scientific management are: (1) The development of Science to replace the old rule-of-thumb knowledge of the workmen; (2) Scientific selection and then progressive development of workmen; (3) To bring the scientifically selected worker and the science together; and (4) The cooperation between management and labour.

For his revolutionary ideas and system, Taylor came under some heavy criticism, as is usually the unfortunate lot of all pioneers, culminating in federal investigations, which ended in a major condemnation of the system. It was charged that Taylorism would reduce the workman into a "human ox" of exceptional strength. Despite criticisms, Taylorism swept not only America but also the industrial world of Europe like a breath of fresh air heralding the tidings of an oncoming new idea and era and here in America it is claimed that although Taylorism has not been adopted as a unified whole, much of the methodology of modern management has been derived from scientific management. Now business enterprise gained what professor Arthur H. Cole calls the "Sophistication of Business." Business is an elaborate and complex process demanding high-level entrepreneurial faculties. Extraordinary

4Industrial Society pp. 41-42.

advances have been made in advertising, research, accounting, business administration, etc. The manager is no more the victim of impersonal economic forces of demand and supply. Demand may be stimulated by skillful advertising, which is an institution by itself in this country. The natives would be lost without the adman telling them what they need. As professor W. W. Cooper has pointed out: that costs may not be allowed to behave, but they may be made to behave. Business is a long-term project and "anticipation" has become a major process of business. Improved methods of accounting, sales forecasting, budgeting and product and research development have bred forward planning of noteworthy importance and of longer time horizons. The integration of industrial plants with raw materials supplies, retirement and pension plans, executive development programs, research laboratories are but a mere evidence for the perpetuation of the enterprise. As Mr. Knauth points out American business units should be viewed as centering around a continuous flow of production and distribution. Professor Cole points out that:

"The modern entrepreneurship is engaged in formulating business policies which ensure permanence to the enterprise, and in order to do this, management is prepared to change industrial lines, if the change is advantageous and thus prepared to break all barriers which might check the survival powers of the business unit."

6See John K. Galbraith American Capitalism.

7"Twentieth Century Entrepreneurship and in the United States and Economic Growth." p. 44.
All the above economic changes in enterprise should be viewed as products of the emergence of corporation as an institution and management as a profession. A series of studies about market organization have supported the contention that:

"Whatever the margin of error in these figures, it cannot be great enough to alter the essential conclusion, which is that a small number of large corporations are responsible for a very substantial proportion of all industrial activity."

The development of oligopolistic market organization is described thus by Galbraith:

"The first blow had been in the making for many years—that it would come sooner or later was implicit in the pattern of industrial growth that has occurred both in the United States and throughout the western world. With many notable exceptions—agriculture, the textile and garment industries, soft-coal mining, wholesale and retail trade, shoe manufacturing—the number of firms participating in a business is likely to be at its maximum within a few years or even a few months after the business is born. Thereafter there is, typically, a steady decline until a point of stability is reached with a handful of massive survivors and, usually, a fringe of smaller hangers-on. Thenceforward the changes in the industry are in the relative positions of the established firms. This is not a universal pattern of development but it is a typical one. The automobile, steel, rubber, farm implement, tobacco, liquor, chemical and radio industries all took such a course... The process by which the typical industry passes from the hands of many to the few has not been well understood. Not infrequently in the United States it has been identified with a design by someone to acquire monopoly control of enterprise. There have been spectacular searches for the devils."

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9Ibid. p. 36.
This departure from the competition of the competitive model, if it caused any inefficiency, is made up by the commercial rivalry of the few large firms, whose very survival stems from the intellectual ingenuity and technological development. Professor Galbraith\(^{10}\) and Joseph Schumpeter\(^{11}\) lay emphasis on the innovating role of enterprises. Infact Drucker argues that innovating and marketing are the two main functions of an entrepreneur in modern enterprise.\(^{12}\) Galbraith argues that change as a result of innovation, that is common to the present-day business, would not be feasible under the competitive model:

"There is no more pleasant fiction than that technical change is the product of the matchless ingenuity of the small man forced by competition to employ his wits to better his neighbour. Unhappily, it is a fiction. Technical development has long since become the pressure of the scientist and the engineer."\(^{13}\)

But it falls within the province of the modern manager to bring the scientist, engineer, research-laboritories, the labourer, the machine market, the consumer together and thus his role has assumed enormous importance. Progress is the motto accompanied by change. Furthermore:

... there can be little doubt that oligopoly, both in theory and in fact, is strongly oriented toward change. There can be no serious doubt at all that the setting for innovation, which is so favourable in this

\(^{10}\) loc. cit. p. 91.


\(^{12}\) The Practice of Management. p. 37.

\(^{13}\) American Capitalism, p. 91.
"market structure, disappears almost entirely as one approaches the competition of the competitive model."\textsuperscript{13}

The modern corporation with its enormous powers occupies a signal position in the economy and its decisions, policies, goals and objectives are all the more important to the economic stability of the country.

In the words of Abraham Chayes:

"What has been said amounts to no more than that the great corporation is the dominant non-governmental institution of modern American life. The foundation of university, labour union, church, charitable foundation, professional association, other potential institutional centers are all in comparison, both peripheral and derivative."\textsuperscript{14}

Thus the modern corporation is "a figure of attraction and a center of activities" and it commands enormous prestige.

Once again to take refuge in the lucid language of Galbraith:

"Prestige in business is also associated with power. The income of a business is no longer a measure of his achievements, it has become a datum of secondary interest. Business prestige, . . . is over-whelmingly associated with the size of the concern which the individual heads. American business has evolved a system of precedence hardly less rigorous than that of Victorian England. It is based almost exclusively on corporate assets. In the business peerage, the ducal honours belong to the heads of General Motors, Standard Oil of New Jersey, Du Pont and the United States Steel Corporation. The earls, baronets, knights, and squires fall in behind in reasonably strict accordance with the assets of their respective firms.

\textsuperscript{13}American Capitalism, p. 95.

"... The reason is not that the business community pays single-minded obeisance to corporate size and therewith to the men who head the largest concerns. Rather it is that the size of the corporation which the individual heads is again a rough index of the power the individual excercises. With size goes the ultimate responsibility for the decisions affecting the largest number of customers, over investment policies which work the greatest change in the income, livelihood or landscape of the community."15

Thus the span and scope of managerial authority is broadened considerably and management is relatively free from the control of the stockholders, the functionless owners of capital. In the emergence of management, we witness the rise of intellectual capitalism. To the managers, business is an intellectual game and intellectual exercise. Management is taught in Business Schools as a science (although we can hear some rumblings of protest when we assert management as a "science") and managerial education produces the managers. Business is an intellectual pursuit and the divorce of ownership from management of enterprise has resulted in the managerial attention being drawn away from mere income statements, although the yardstick of managerial efficiency is the profits of the organization. With the power of making corporate decisions, setting corporate goals and policies, the manager is in a unique position of power and any institution with as much power as a corporation, is looked upon with distrust, for a balance of power and checks and balances are a part of American Ethos; hence it is no accident

15American Capitalism, pp. 28-29.
that the rise to power of management coincides with the growth of power of labour unions and government. In the meanwhile a mental revolution has also taken place and the manager disavows power by talking of his responsibilities to the society and the country. Industrial psychology and human relations have gained importance in his scheme of enterprise in order to provide the labour its fulfillment and the individual his full expression and development. In an affluent society, his is the burden "to create a customer"\textsuperscript{16} and not just meeting the demand and his weapons are science, engineering, research, sales, forecasting, product development, budgeting advertising. Advertising here is unparalleled anywhere in the world. It is very effective, persuasive and aggressive. Besides it sells goods and services. Apart from creating a customer at home, the burden of extending the market to the corners of the globe lies on the shoulders of management. The modern corporation has gone beyond the realm of economics and it has embraced the young social sciences of sociology, psychology, industrial psychology, and politics, which are of crucial importance to management. Furthermore with America assuming the enviable position of economic leader in the comity of free nations, the character and burden of American business enterprise have assumed new dimensions, and new frontiers and new vistas are opened for management. In a world dominated by opposing ideologies, the

\textsuperscript{16}Peter F. Drucker, \textit{The Practice of Management}. p. 37.
performance and efficiency of management are of crucial importance, for:

"Business as a rule-maker stands high in responsibility among human institutions, as a source of goods and services, to be sure, but also as a source of order and freedom."\(^\text{17}\)

Moreover it has fallen on the shoulders of management to perpetuate (or not to) free enterprise by proper responsible behaviour, for fear of inviting state controls. Internalizing the dominant values of society and the nation in the corporate goals and responsibilities reveals the concern of management with regard to its social obligations. The former Dean of Harvard Business School, Donald K. David has admonished that:

"The prime necessity for the businessman today is to weld to his economic prowess a similar drive, skill, and creativity in his dangerously neglected social and political functions."\(^\text{18}\)

The image of America abroad as a bastion of freedom and democratic concepts will be made or marred by the performance of the dominant institutions, corporation and management. The emphasis on responsible, rational and religious managers to create the proper image is stressed by the Dean of Harvard, Stanley Ieene.\(^\text{19}\) The modern manager talks of not only making profits but also discharging social responsibilities towards the consumer, labourer, the society, the stockholder, nation and the


\(^{19}\)"The Businessman of the Future." in *Management's Mission in a New Society*, p. 41
world and thus he embraces the libertarian goals and moralist goals of enterprise economy.

The very survival of the corporation and even the free enterprise system depends on how well the managers perform in meeting the demands of the corporation and those related to the corporation—the various "publics." To aid him in his performance, he has the benefit of not only management science, but other sciences like psychology, sociology, law, politics, industrial psychology, and the confluence of enterprise and science we see the dawn of intellectual capitalism and we can also note that intellectual capitalism is an outgrowth of scientific management encompassing the "human" and the "non-human" factors of business.

Never in history has so much depended on so few seems to be an apt description of the role of managers today. With enormous powers to affect the economic life of the nation, management has come to occupy a pivotal position and even as it is the balance wheel catering to the demands of stockholders, customers, labour, the community, the nation and the world, it has also become the victim in search of an ideology, what with the exhortations of liberals, moralists, churchmen, educationists, and conservatives. In a system of checks and balances, where

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absolute power and authority are frowned upon regardless of merits, intellectual capitalism is in search of relevant rationale for business and the trend of managerial apologetic seems to be toward an ideology of service, with stability, reputation, profits of organization following.

Indeed we have come a long way from the rugged individualism towards an ideology of service and intellectual capitalism and in the process we have noted the impact of economic and cultural change on the business enterprise. Now we turn to labour and the metamorphosis of this institution in the years proclaiming the dawn of intellectual capitalism.
(b) The Paradise of the Proletariat.

From the poverty of the Industrial Revolution to the prosperity of 20th century Managerial Revolution, from the misery of Malthusian and Marxian predictions to the opulence and affluence of Galbraith, from scarcity to abundance, from weakness to strength, from criminal anonymity to lawful respectability, from hard and disheartening labour of eighty hour-a-week to a fruitful and pleasant forty hour-a-week (talk of thirty hour and even twenty hour-a-week)\(^{21}\), from low and pitiful wages to high and plentiful wages, the transition of the Proletariat is an eloquent commentary on the American system of free enterprise, which is bound up with the American ethos of equal opportunity for all and this historic evolution shall not go "unnoticed, unsung, unhonoured" in the annals of history of Mankind.

Marxian predictions of a class war leading to the extinction of capitalism and resulting in a dictatorship of the proletariat and a paradise of the proletariat have been belied by the winds of change that have swept the free enterprise system in America by the dawn of intellectual capitalism and scientific management and the rise of the labour unions under the protective wings of a democratic and humanitarian government. Nevertheless Marx served a unique historic purpose by his bleak prophecy of the fate of capitalism in that we have been able to learn for:

"the special nature of the problems of the social sciences, concerned as they are with individuals who are capable of learning and acting on the basis of such learning, rather than with unreflecting entities."

In a culture of checks and balances, Selekman views the rise of labour unions as a check to the growing power of businessmen:

"But there is another, more important, explanation: the development of a balance of power. This is a familiar constellation of forces in society. When any nation or group within a nation gains great strength, other nations or interest groups naturally mobilize their power to check the first group and meet it on equal terms."

"In the case of American business, government and labour have grown up in strength, in the first instance to regulate corporate activity, and in the second to bargain with management on a plane of equality. After the Great Depression, with its mass unemployment and suffering the political reforms of Roosevelt and Truman dominated the American scene. At the same time the unions marched in, seized property, called sit-down strikes, and did battle for what they considered to be their rights. It is no coincidence that the expansion of professional management coincides with the growth of unions and government regulation."

The rise of labour unions has been a blessing in disguise, for it has sharpened the performance of management.

"Growth began in 1932 and was, of course, greatly encouraged by the New Deal. In the ten years from 1935 to 1945, union membership expanded from roughly three and one-half to fifteen million as part and parcel of the great political, social, and economic change created by the 1929-1932 depression."

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The present AFL-CIO is concerned with dwindling membership as voiced in the recent convention at Miami. The history of labour and management relations is dominated by, "first, organization and recognition; then contract development; and finally, by accommodation." 25

Here it is not our desire to survey the labour movement as such, but to survey the change brought about by the combination of intellectual capitalism and labour unions.

First, the departure from the traditional labour market to the institutionalization of labour market 26 with emphasis on collective bargaining and the advent of an economy of high wages pioneered by Henry Ford has led to considerable prosperity of the proletariat.

Secondly, while the unions have the dual functions—productionist and consumptionist, the free world and more so America, has chosen the consumptionist function as more important as opposed to the communist world, which has embraced the productionist function, the Unions with consumption in mind, try to get higher wages and more fringe benefits to its members as consumers. 27 The Coup De Maitre among the economic and cultural changes has come as the result of the combination of the rise of

25 op. cit. p. 239.


scientific management, intellectual capitalism, governmental intervention, labour unions and the change is that labour is not a mere commodity, but it is "human." The result is the enormous preoccupation in human relations with the realization that the worker brings along with him the "non-business" character to the work. As Mr. Minton writes:

"As a leading personnel executive recently stated, 'We share certain basic desires and needs for good health, security on a job, and at home, the love and affection, of the family and friends, self-esteem and the regard of others, the feeling of doing something worthwhile, and pride of achievement ... It is the whole man who becomes hungry, gets sick, grows tired, becomes emotionally upset ... It is the whole man who comes to work.' 28

He further adds:

"No longer is labor a commodity to be sold in the industrial market place. During the last two decades, America has evolved into a classless society. The wage earner lives side by side with the white collar or professional salaried employees in beautiful communities." 29

As pointed out by professor Oswald Knauth we have labour bargaining not with capital as it were with fellow employees. 30

The acceptance of the doctrine of trusteeship by intellectual capitalism has resulted in the carrying of responsibilities by management to provide the necessary conditions through monetary and non-monetary incentives for full expression and full development of the proletariat for the overall benefit


29loc. cit. p. 181.
of the enterprise the community and the nation at large. "Motivating" and increasing the "morale" for better performance of the proletariat have come under the realm of human relations, democratic management and with the aid of social sciences like sociology, psychology, industrial psychology.

Georges Friedmann claims that:

"Industrial psychology, therefore, owes it to itself to contribute to the worker's physical well-being by avoiding for him the various forms of fatigue, and to contribute to his mental well-being by combating irritability, tedium and anxiety while retaining for him the advantages of mechanization, it should strive to eliminate its harmful effects."

The advance in the treatment accorded to the employees in the past thirty years apart from the concessions exacted by the organized labour and government is illustrative of the enhanced social awareness of the growing problem of human relations.

Selekman argues that the responsible behavior on the part of manager was forced on management by unions soon after the second World War:

"Both organizing campaigns and negotiations, these leaders (labour) attacked business as being primarily interested in profits rather than the welfare of the nation and its

31Industrial Society, p. 123.
"people. And so it became inevitable that if it was
to maintain its position in the American community,
corporate business had to develop a position of
responsibility which would win it acceptance as a
legitimate institution." \(^{32}\)

Although the unions and the workers have gained in economics
and social status over the last twenty-five years, the recent
political climate has been critical of labour, particularly
certain unions, prominently Teamsters' unions. It is said
that labour leaders also do not entertain any aspiration to
gain any political office, although recently rumours have
been touched off to the effect that George Meany of AFL-CIO is
being groomed for an important political office in the near
future. As reported by Livernash:

"Their goal has been primarily always the same, and
always limited: they want legislation that will enable them
to be more effective in collective bargaining, and they
want to defeat bills that will cripple them in their efforts
to bargain. Unions crave various kinds of benefits and
social security protection for member's families—but
they have no political aspirations as such." \(^{33}\)

In the discussion of the prosperity of the proletariat
of contemporary America, this research student is tempted to
make some observations as a result of his coming in close

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\(^{32}\) A Moral Philosophy for Management, p. 7.

\(^{33}\) "How Effectively are Management and Unions Living?" p. 251.
contact with the American worker during his summer sojourn of work. I must say that Douglas McGregor is very modest in his "Humanside of the Enterprise" when he claims that the physiological and safety needs of the proletariat are met and that social, egotistic and self-fulfilment needs are the residual motivators, for a satisfied need is not a motivator.  

As a matter of fact it appears to me, coming from a land of the poor, the American proletariat (at least the ones I worked with) are in my unscholarly language; overfed, overclothed, overhoused, overcared, overscaled, overwined (or should I say overbeered) and oversexed. I only wish Marx were alive! What a shattering revelation it would be to him! The misery, poverty, hunger, and suffering that would unite the workers in a revolution, that would result in a class war between the proletariat and the capitalist, as predicted by Marx, are unheard of in this land. Looking at these workers of America and working with them, I would say that if they are suffering from anything at all, they are suffering from an overdose of prosperity and luxury. In the first instance there is no class as such and no revolution in the offing, for American labour is not revolutionary in character, even as a cynic pointed out somewhere that revolutions are for the emaciated, miserable and starving. Coming from India, I would venture


35. F. H. Knight, *Freedom and Reform*, p. 93.
to state that the prosperity of the proletariat in America
is unparalleled and unique in the sad history of the proletariat.
At no other time and at no other place in the history of the
proletariat has the labourer "had it so good" as the American
expression goes, as here and now in the United States of
America. Here and now is the paradise of the proletariat.
Oddly enough what has gone down as a socialist myth has come
to pass as a reality and a fact in the citadel of free private
capitalistic society. I will have to agree with Richard Nixon
when he asserts:

"Ironic though it is, of all the great industrial nations,
the stronger defender of private capitalism is the one
that has come closest to achieving the socialist goal
of prosperity for all in a classless society."

But as long as man is an insatiable animal and as long as he is
chasing the horizon of ambition, desire and wishes, even this
terrestrial paradise is far from perfect and has not left the
American worker contented. The American worker works as hard
as ever, engaged in what the foreigners call a "rat-race,""a
victim of his own comparative well-being"37 and as a cynic
would proclaim that there is "no rest for the sinners". But in
a land where work is a tradition and time is valuable and
precious, the American proletariat can proudly hold up their
chin for their achievement. Being a young nation, America has

36 "America's Mission in a New Society" in Management's
Mission in a New Society, p. 49

had the benefits of the civilization of Man and the Industrial Revolution and the experience of other nations. The immigration laws, the Second World War, foreign trade and foreign aid have all been helpful in keeping the living standards as high as they are now. The evolution of capitalism from the hard-bitten, selfish, greedy and asocial owner-entrepreneur to an intellectual capitalism of professional management and popular ownership is an historic phenomenon. The trend towards "people's capitalism," is increasing here, as evidenced by the following statement of Ralph Cordiner:

"The . . . prominent characteristic of General Electric is its widespread popular ownership . . . Today, there are 358,000 owners of General Electric . . . Nearly 13,000 institutions, such as pension funds, schools, and churches, own shares in General Electric . . . Although AT & T and General Motors have more share owners, we seem to be a highly popular investment for the small investor . . .

"Another significant trend is that General Electric's employees are becoming owners of the Company. Today, more than 50,000 General Electric employees are share owners in the company, and 65,000 more are becoming owners, through the Company's Savings and Stock Bonus Plan. This group of employee share owners represents approximately one half of the employees."

"Here, it seems to me, is convincing evidence that the "People's Capitalism" is a living fact . . ."\^38

The rise of labour unions, intellectual capitalism and democratic and humanitarian government as a combination has

\^38 \textit{New Frontiers for Professional Managers}, p. 15.
brought a mental revolution among the professional managers, who now think that it is important to satisfy the human needs in order to help the individual attain selffulfillment and not to feel any deprivation. In the opinion of Douglas McGregor:

"People deprived of opportunities to satisfy at work the needs which are now important to them, behave exactly as we might predict—with indolence, passivity, unwillingness to accept responsibility, unreasonable demands for economic benefits." 39

Thus the transition resulting in intellectual capitalism and the paradise of the proletariat is a product of the overall sweeping economic and cultural changes in America and now we turn to our conclusions about the American business apologetic in view of the libertarians' and moralists', Apologetics' and the economic and cultural change in America.

39 Humanside of The Enterprise., p. 42.
CHAPTER VI

THE CONCLUSION:

After examining the views of the libertarians and the new business moralists, we witness some "trends" toward the development of a "new" American business apologetic, replacing the classical defense of business. Before drawing our conclusions, a brief summary of the relative positions of the libertarians and the moralists may be useful.

The libertarians hold that the "end" of the enterprise economy is "productive efficiency" that economic freedom is a goal and an ideal by itself; that the loss of economic freedom is a goal and an ideal by itself; that the loss of economic freedom means the end of political and personal freedom and the beginnings of servitude. That the individual is the best judge of his own interests and values; and that the pursuit of individual self-seeking and self-interest will enhance the overall efficiency of the market economy with mutual advantage through free exchange of goods and services, in spite of the conflicting interests. They assume the existence of perfect competition, where "the individual producer has to adapt himself to price changes and cannot control them." In the absence of such "ideal conditions," realizing the error of the liberal age—over-emphasis on freedom,

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1 See p. 29.
2 See p. 28.
3 See F. A. Hayek, Road to Serfdom, p. 49.
modified liberal position is advocated with emphasis on sportsmanship and the spirit of "playing" the game and the door is opened for state intervention to "police" freedom against force and fraud, although the "New Deal" proponents are prepared to accord a greater role to the state to promote the welfare of the people and to rectify the "ills" created by the concentration of economic power in fewer hands with appreciable power to affect the prices of the market.

The libertarians argue that "business is business" and charity, love and moral obligations are feudalistic, anachronistic and disruptive in the enterprise economy.\(^4\) Minding others' business is irrational and irritating to the libertarians.\(^5\) The libertarians point out that religion (Christianity) does not provide any reliable guides to business decisions and actions and the ethical dualism of "business -versus-charity" should be accepted "if the kind of civilization we call free is to exist."\(^6\) While they concede that the personal morality preached by Christianity is necessary, they are highly skeptical about deriving any applicable rules from Christianity in order to solve business problems. The liberalism, based on a religion of irreligion,\(^7\) is opposed to any dogmatic faith. The libertarian

\(^4\)See p. 49.
\(^5\)See p. 52.
\(^6\)See p. 49.
\(^7\)See p. 27.
school of thought emphasizes self-reliance, non-interference and "fair competition" in their apologetics for the maximum happiness of all through mutual advantage and free exchange.

As opposed to this libertarianism, the new business moralists reject the principle "business-is-business" for the lack of maximum moral tension and point out the departure from the perfectly competitive system and the enormous growth of power in big business and corporations. The moralists comprising of professional managers, economists turned ethicists, churchmen, etc., think of the corporation as "a moral community" with social responsibilities and moral obligations to the consumers, workers, community, nation and the world. Business has a social purpose and the moralists draw their inspiration for their "apologetics" from Judeao-Christian Ethics and Graeco-Roman wisdom. With the departure from the "ideal conditions" of competition and with the growth of power of the corporation and management, they admonish that the very survival of the free enterprise system is dependent upon the responsible behaviour of businessmen as the "trustees" of economic power in the society. They claim that the need for a moral philosophy and for the assumption of the doctrine of social responsibilities on the part of the businessman (manager) is only "practical" in a cultural atmosphere, where any appreciable concentration of power in any one group is looked upon with disfavour and distrust. They point out that the coincident rise in the power of professional management, labour unions and government is no accident, but an evolution of a
scheme of order consistent with an American ethos of checks
and balances. They advance the theory that the ethical optimum
provides for a profit maximum in the long run, thus echoing the
familiar doctrine of Heaven-plus-profits, much to the discomfort
of the libertarians. Here the shift is from each-for-himself
of the Protestant ethic to one-for-all of the social ethic.

To the moralists, business is part of religion even as
the businessman is a product of Christianity, for he is nourished
in Christian traditions and his whole ethical outlook stems
from the Christian code of conduct. Christianity is their in-
spiration, from which the businessman could stock his intellectual
streams with ideas for the purpose of his responsible and
moral behaviour in the economy. But the moralists express their
difficulties in arriving at solutions for business problems from
Christian teachings and they in fact helplessly state the fact,
that the best that could be done, in view of the absence of
"middle axioms" ⁸ is to approach the problem in a true Christian
spirit, but decide the issue on a purely circumstantial basis.⁹
Thus there appears to be not much difference between the moralists
and the libertarians as far as deriving applicable rules from the
Christian teachings for the solution of business problems. But
the important difference is while the libertarians deny religion,
the moralists draw their inspiration from religion. With the

⁸ See p. 71.
⁹ See p. 72.
professionalization of management, the modern manager has become a balance wheel catering to the demands of the various "publics" connected with the corporation.

With this brief summary in view, we now turn to the conclusions of the study.

The Conclusions:

First, both the libertarians' and the moralists' concern centers around the survival of the free enterprise system. The current trend of accepting the ideology of service and the doctrine of social responsibilities and internalizing the dominant values of the society may be interpreted as a rationalization of enlightened self-seeking and self-interest in order to survive in an economic order where the businessman has the opportunity to wield appreciable power to affect the market forces and the economy—a circumstance far removed from the "ideal" conditions of the classical model. With the ever increasing fear of governmental controls and state regulations, it seems "practical" to plead the "service" apologetic. It is possible that the ideology of service may be due to a moral re-awakening stemming from Judaeo-Christian ethics and the evidence rendered by moralists like Selekman and Underwood appears convincing. In the absence of middle axioms for guidance in business decisions and while religion provides the moral interest for responsible ethical behaviour, I am afraid, we are still subscribing to the principle "business-is-
business," and if "Charity" is not altogether eliminated from business, it is because, I surmise, "charity" has become good business and it helps in building up the corporate image in the society.

Secondly with America, standing in the vanguard as the leading economic power, facing the challenge of the ideology of communism, the acceptance of the ideology of service and the emphasis on Christian tradition serves as ideological weapons to combat communism in the war of ideologies in our present world.

Thirdly, whether the ethical optimum provides for a profit maximum in the long run or not, the pursuit of individual interests of Protestant ethic is gradually being replaced by the pursuit of group interests of social ethic. Although profits are still the yardstick of business success and managerial efficiency, the principle of profit maximization has come to play a "subdued role."

Thus the motives of the "service" apologetic seem to be more political and social than purely economic. While this trend may be non-rational and non-economic to the libertarians, wedded as they are to rationalism, this appears to be a practical and pragmatic approach, considering the fact that the modern corporation stands as an institution next only to the State and the Church and that managerial judgement considerably affects the economic life of the nation.
Fourthly, the human factor in business is gaining more and more managerial attention. The increasing interest in human relations to provide the individual the opportunity for self-fulfillment and over-all development of the human person is evident, but we need to remember that better human relations may improve productivity or market demands, for the "human" factor pays.  

Fifthly, the dawn of intellectual capitalism on the horizon of American business marks an epoch-making event and the marriage of science and large scale industry along with professional management has opened up new frontiers to explore and conquer. The high efficiency and technical competency that the modern manager brings into "play" on the economic field marks a tremendous change. Whatever inefficiency that is introduced by the departure from the classical competitive model is compensated by technical change and development and innovation, the chief features of present American business. The modern manager and the corporation have come to occupy a pivotal position in the society and on their behaviour and performance depends the survival of the free enterprise system. The labour unions while strengthening the position of their membership, have also sharpened managerial performance and efficiency. The government concerned with the welfare of the people and the security of the nation and the free

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world, has provided the argus-eye in order to remind the corporation and management not to operate irresponsibly in their own interests. We may anticipate the role of government increasing in economic affairs and with increasing threats to the security of the nation and the free world. The American business with intellectual capitalism and the professional managers at the helm of economic affairs has brought about a unique and unparalleled prosperity in the life of the nation. Intellectual capitalism has brought in its wake a paradise to the proletariat, a veritable withing-well to the consumer, prosperity to the stockholders, a fountainhead of freedom, security and stability to the society and the nation, and a beacon of hope to the world.

Whether the service apologetic of American business is mainly due to enlightened self-interest or due to a moral reawakening of Judaeo-Christian traditions, the ideology of service marks a turning point in the spirit of capitalism and the corporation may become a major source of order and freedom. This ideology also appears to fit into the unique American ethos of disavowal of power in the name of service. Thus the burden of immediate business decisions and of a system of free enterprise economy falls on the shoulders of the businessman. How well he carries, these burdens, means the survival or the end of the free enterprise system. The American business apologetic seems to be gaining shape in a compromise principle, where the businessman, without rejecting what Knight calls "business-is business" principle of
the libertarian school, gives expression to the ideology of service and a moral philosophy of the moralist school derived from Judaeo-Christian ethics. I may venture to add that this wedlock between reason and religion and rationalism and idealism may bring forth a new and unique rationalization of business—in short, "apologetic"—that is uniquely American, even as this nation was conceived in great ideals, so that her sons may constantly strive towards greatness not only in business, but in all phases of life also.

As Alfred North Whitehead pointed out, that:

"A great society is a society in which its men of business think greatly of their functions,"11 for as the Upanishads proclaimed to the world thousands of years ago: Human Action Can Transform the Nature of the Universe.


