Durable Goods: A Covenantal Ethic of Management and Employees
Stewart W. Herman
Notre Dame, Indiana: University of Notre Dame Press, 1997 (248 pages)

Stewart Herman’s recent effort to define and promote the creation of “durable goods” in business corporations has not gotten the attention that it deserves. His brief in behalf of fostering genuinely cooperative relationships between employees and management is not readily politicized. Nor will pundits find in it prescriptions readily reducible to sound bites. This is not the stuff that gets an author invited to share in the polarized and polarizing ravings favored by talk-show radio. Why is it, then, that critical and well-informed expressions of business ethics, particularly those seeking to work faithfully within one or another tradition of Christian ethics, are so blithely ignored?

Given the current wave of job-cutting and its accompanying patterns of corporate blood-letting, nothing could be more relevant, one would hope, than Herman’s attempt to assess the history of American employee/management relations for some clues as to the prospects for a covenantal ethic in business. The very term, covenant, is resonant with the bedrock of this country’s residual inheritance of Protestant Christian values. Its use suggests that working for a business is not, and ought not to be, reducible to the narrowly defined stipulations of a labor contract, however freely entered into. Covenant invokes a larger context and an expansive vision. It is about trust, mutuality, respect, and an overriding commitment to the common good. To raise that tired and tattered banner in the current business environment will surely invoke skepticism from many different quarters—but skepticism usually is a prelude to vigorous argument. How, then, the deafening silence?

Herman’s theological credentials are impeccable. He acknowledges himself to be a Lutheran and asserts that “an important task of Lutheran ethics is to make claims about precisely what it is God wants us to do within our roles” (x). His position is also informed by the broad stream of American public theology, the so-called “Christian realism” that Reinhold Niebuhr first formulated and vigorously, if not always persuasively, defended. Disciplined by the methodological refinements that Reinhold’s brother, H. Richard Niebuhr, and his most influential student, James Gustafson, contributed to the formation of Christian social ethics, Herman seeks to assert and develop a Christian realist perspective in business ethics—a perspective that is equally wary of the overly optimistic “ethical managerialism” popularized by Peter Drucker and his disciples, as well as by the overly pessimistic pronouncements of “prophetic critics and skeptics”—for whom business managers, even when their intentions are noble, are simply unable to mount any effective resistance to the relentlessly predatory logic of capitalism. Those familiar with Reinhold Niebuhr’s way of setting up his opponents will, of course, recognize Herman’s attempt to navigate between the proverbial Scylla and Charybdis. The reality of his brief in behalf of covenantal cooperation, however, depends on just how accurately he has mapped the treacherous currents, the submerged obstacles, and whatever sea monsters still lurk out there in the murky depths of corporate culture.

If you check Herman’s footnotes, you will soon discover that I, like several others in the guild of Christian ethicists, am very sympathetic to his project. By all means, we need a covenantal business ethic, but I am not sure that Herman succeeds in fully developing one. His commendable understanding of organizational theory allows him to recognize the significance of the conflict between employees and managers, and so he seeks to enlist the resources of covenantal morality to negotiate that conflict more equitably. Bravo! But there is yet an aura of unreality about his analysis of the conflict, as if it were merely a struggle for power that could be eased by a more discerning and effective approach to human resource management. Strangely ignored in Herman’s perspective is the role of investors and creditors, the owners of capital (however, the firm obtains it), whose impact, in my view, is at least as important as the interaction of employees and managers. Indeed, without mapping the ways access to capital shapes the terrain upon which these two interact, their struggles are virtually unintelligible and hardly resolvable.

Herman’s emphasis on stakeholders, in short, masks the ways in which the exorbitant demands of stockholders make institutionalizing anything remotely resembling a covenantal relationship seem hopelessly utopian. It is striking how assiduously Herman avoids discussing how profitability, the exigencies of profit-maximization, and the moral imperative—however legitimate—of fiduciary responsibility actually call the tune to which both employees and managers must do their song and dance. Milton Friedman’s memorable assertion that the purpose of business is to maximize profits is never explicitly addressed. Nor is the financial theory of the firm that is the cornerstone of all that is taken seriously in conventional MBA programs ever contested. To be sure, there are skirmishes, such as Herman’s brief remarks on the “extrinsic value of cooperation” (179–80), where he recognizes, on the one hand, the positive impact that an increase in cooperation may sometimes have on the bottom line while, on the other hand, warning of the moral dangers involved in too close a link, as if increased profits were the divinely ordained fulfillment of covenantal promises. But what is a Christian realist in business likely to make of the following statement?

“According to one recent review of the literature, the efforts by management to deligate meaningful power and control to employees tend to yield some measurable economic gains (rarely losses), not spectacular returns. From a covenantal perspective, the lackluster economic performance of cooperation is not discouraging. To be sure, programs of cooperation have to be economically viable…. Here the academic studies are encouraging…. Programs in cooperation need only be profitable, not more profitable than coercion or compliance as alternative modes for coordinating work…” (180)

Maybe so. But however eager die-hard covenantalists may be to accept lukewarm returns on their investments, the vast majority of investors and managers are likely to remain unsatisfied unless Herman or some other Christian realist can vigorously and
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Maybe so. But however eager die-hard covenantalists may be to accept lukewarm returns on their investments, the vast majority of investors and managers are likely to remain unsatisfied unless Herman or some other Christian realist can rigorously and
convincingly refute our conventional assumptions about profit-maximization and the
overriding priority of stockholders among stakeholders as expressed in the financial
theory of the firm. The effort to navigate between the Scylla of managerial prerogative
and the Charybdis of employee adversarialism is not likely to succeed unless the true
dimensions of the elusive obstacles of capitalist finance are accurately mapped and
accounted for.

Friedman may be wrong in asserting that the purpose of a business is to maximize
profits—just as Drucker may be wrong in asserting that the purpose of a business is to
create a customer. But if Herman is to differentiate his position from the “ethical man-
gerationalism,” which he rightly criticizes, he would do well to triangulate his analysis so
that the conflicts between investors and managers, as well as those between top man-
agement and middle management, are just as visible as those between managers and
employees. Such a triangulation need not be reductively Marxist and need not warrant
the incorrigible pessimism of those “prophetic critics and skeptics” who regard capi-
talism as inherently evil, but it would allow us to recognize that managers (as well as
employees) need to rely—beyond their own good intentions—on the common good
embodied, monitored, and effectively enforced by a credible and effective scheme of
government regulation. The search for a covenantal ethic, if it is to be Christianly real-
istic, may have to focus some of its attention, for example, on the Securities and
Exchange Commission and on the other gatekeeping institutions that have failed the
markets so miserably over the past decade or so.

Despite these criticisms, or perhaps precisely because of them, Herman is to be rec-
ognized and commended for his genuine contribution to the credibility of any proposal
for a covenantal business ethic. His making explicit once more the underlying biblical
principles often given short shrift in glib invocations of such an ethic, his penetrating
interpretation of the morally ambivalent legacy of American labor-management rela-
tions, and his impressive development of organizational theory as a resource for
Christian business ethics, all encourage the view that the concerns that I have raised
here need not dissolve into a pretext for self-righteous but basically bankrupt, moral
posturing.

—Dennis P. McCann
Agnes Scott College

Social Justice in a Market Economy
Hermann Sautter and Rolf Schinke (Editors)
Frankfurt, Germany: Peter Lang, 2001 (194 pages)

From the beginning of the Industrial Revolution, one region of the world has been
repeatedly put forward as the area for the next great expansion resulting in significant
economic power: Latin America. Just as repeatedly, Latin America has disappointed
those aspirations. The number of false dawns for individual countries and the wider
region has itself been a topic of much research. The current volume attempts to present
institutional concerns that affect Latin American economic and social development
today but from a specifically German perspective. Included in the analysis is a critical
examination of areas where Germany itself is currently challenged.

This volume is a collection of papers presented at the 1999 Summer School on
Social Justice in a Market Economy sponsored by the Ibero-American Institute at
Göttingen, Germany. The participants in the summer school were twenty-five young
scholars in economics and political science from eleven Latin American countries. The
underlying message of the series of papers is that Latin America needs to look at the
variety of social institutions throughout the developed world to determine which are
appropriate institutional frameworks for their own situations. Rather than rely on the
dominance of North American thought, some perspectives from Europe could be of
use.

The nine papers can be divided into these sections: Introductory and conclusion;
general international comparisons on health policy and pensions; German-specific
studies on (a) the social market economy, (b) educational policy and (c) the labor mar-
ket; and Latin American-specific studies on the general level of development and the
recent reforms in health policy.

Since these papers were meant to inform Latin American students of the institu-
tional frameworks with which they would not be familiar, this volume can be read by
anyone as a primer in the concerns of developing a vibrant economy while still pre-
serving the social cohesiveness of a society.

Sautter’s introductory paper frames the other papers well. He outlines an ideologi-
cal perspective of social justice that influences the other papers. The capitalistic market
cannot be left alone to determine how economic resources are allocated, he insists.
Primary for the market is the requirement of a strong state, by which a strong and just
legal system can be created and sustained. The state must provide the foundation for
the market to function in the first place. In addition, the state must moderate any exces-
sive inequalities that result from the capitalistic system while still not eliminating the
risk needed for market mechanisms to function properly. The policy dilemma is to
determine where the fine line is between cultivating the long-term success of the mar-
ket economy and depressing economic growth to the detriment of society.

These policy decisions are then seen through the institutional frameworks of edu-
cation and social services, the traditional areas where government has intervened in the
market so as to engender a more just society. The market is not seen as detrimental to
social justice but, rather, the market needs policies inspired by social justice to main-
tain the social foundations from which the market can grow, long term, such as the
development of human capital through educational policies, the maintenance of the
health of society, and reassurance against the economic fears of old age.

Solutions to these policy dilemmas are not predetermined. Rather, they are depend-
ent on cultural and historical contexts. Where German examples are given, they are
not seen as the ideal. The well-developed, firm-specific, apprenticeship training system
in Germany is described with its social and economic contexts. This description