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Morality and Character Development: The Roles of Capitalism, Commerce, and the Corporation

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Capitalism is a system of voluntary relationships within a legal framework that protects individual rights against force, fraud, theft, and contract violations. Morality is impossible unless one has the freedom to choose between alternative actions without outside coercion. Since capitalism is based on freedom of choice, it can promote morality and character development—a key aspect of human flourishing. Commerce in a free economy not only requires but rewards virtuous behavior.

Introduction

An economic system such as capitalism[1] is a system of relationships and cannot be moral or immoral in the sense that an individual can be—only persons are genuine moral agents. However, an economic system can be moral in its effects if it fosters the possibility of moral behavior among individuals who act within it. Since the formation of such a system is a human act, it follows that there is a moral imperative to create the kind of political and economic system that permits the greatest possibility for self-determination and moral agency.

All humans possess natural rights endowed by the Creator and are morally obliged to respect the rights of others. The purpose of natural rights is to protect individual autonomy and accountability. Natural rights impose a negative obligation: the obligation not to interfere with another person's liberty. Since persons are ontologically equal and independent, no one ought to harm another with respect to his or her life, liberty, or possessions. It is illegitimate to use coercion against a person who does not first undertake the use of force. The role of government is to protect natural human rights through the use of force, but only in response to those who undermine such rights.[2]

The natural right to political freedom is a necessary social condition for the possibility of moral action. Political freedom involves the idea of a protected private sphere within which an individual can pursue freely chosen norms, actions, and ends without the intervention of arbitrary coercion. Natural rights, therefore, require a legal system that provides the necessary conditions for the possibility of human flourishing through freely chosen courses of action.

The common good should not be seen as a single, determinate goal that all persons must work toward. Rather it is the procedural implementation and protection of the natural human right to liberty. The natural right to liberty is a necessary precondition for the possibility of human moral action. There can be no morality without individual responsibility and no responsibility without personal self-determination. Responsible self-determination implies prudence, rationality, honesty, self-control, productiveness, and perseverance. In its absence, people will devalue liberty, character qualities will diminish, and governmental institutions may become the means for people to evade personal responsibility. To provide the maximum degree of self-determination for each individual, the state should be limited to maintaining justice, police and defense forces, thereby protecting life, liberty, and property.[3]

Capitalism is a system in which individuals are free to decide which goals to pursue. Within a capitalist system, government's proper role is to enable people to pursue happiness. The pursuit of happiness may be viewed as voluntary, purposive action. Happiness is the positive, conscious, and emotional experience associated with the use of a person's individual human potentialities including one's talents, abilities, and virtues. Happiness cannot be given to people; it must be attained through one's own exertions. Dignity and self-esteem (including self-efficacy and self-respect) must be acquired through one's own efforts—government cannot supply more than the prerequisite conditions.[4]

No economic system can make people virtuous, it can only provide the occasion for virtue or vice. Morality requires the freedom to act immorally. Capitalism, the system that maximizes human freedom, cannot guarantee a moral society; however, freedom is a necessary condition for a moral society. It is only when a person has choice that he or she can be moral. Choice (i.e., free will) is the foundation of virtue. Capitalism is consistent with the fundamental moral principles of life itself and, when compared to other economic systems, is conducive to the use of free will, which makes moral behavior possible.

To Exist Is to Co-Exist

The sense of belonging to freely chosen communities is an important constituent of human flourishing and happiness. Although the individual is metaphysically primary (and communities are secondary and derivative), communities are fundamental because they assist us in reaching our potential. The social bonds of affiliation are instrumentally valuable in the satisfaction of non-social desires and are necessary for one's personal flourishing.

Since a large portion of a person's potentialities can only be realized through association with other human beings, personal flourishing requires a life with others—family, friends, organizations, and business associates. These associations are instrumentally valuable in the satisfaction of non-social desires and are necessary for a person's moral maturation including the sense of meaning and value obtained from the realization of the consanguinity of living beings that accompanies such affiliations.[5]

Human beings are unique, ontologically equal individuals who are not only born into a universal (i.e., human) community of shared mortality and accountability but because of their nature have potentialities that can only be realized through association with other human beings. Equality involves the recognition of our common human capacity to be free to associate with those of our own choosing. People are responsible for choosing, creating, and entering relationships that will enable them to flourish. If people are free, they will naturally form communities and voluntary associations. When communities are freely chosen, the results are a sense of joint ownership, a coincidence of interest, and a sense of belonging. Community identification and involvement thus contributes to the happiness of the individual participants.

For example, the corporation (a voluntary association) unites people in a common goal and gives them a sense of meaning and purpose. The cooperative nature of the corporation illustrates that capitalism is far from the anarchic individualism that critics have claimed it to be. In fact, it can be argued that capitalism's antidote for social dislocation is the corporation, in which mobile workers are organized into teams of task-oriented colleagues.[6] The corporation is a community whose social purposes include: (1) making a profit; (2) creating new wealth; (3) providing desirable goods and services; (4) providing private moral and material support of activities of civil society; and (5) establishing within the firm a sense of community and respect for the dignity of persons.[7]

Work Is Essential for Human Flourishing and Happiness

Work is at the root of a meaningful life, the path to individual independence, and a necessity for human survival and flourishing. It is also the distinctive means by which human beings forge their identity as rational, goal-directed beings. Productive work is the process by which humans control their existence by acquiring knowledge and translating their ideas and values into physical form. Work is a synthesizing activity, involving both cognitive and physical aspects, and helps to actualize specifically human abilities and desires. Work is needed not only for sustenance but also for psychological and spiritual well-being—it is the means by which a person can maintain an active mind, attain purposes, and follow a goal-directed path.

Since humans must work to obtain material well-being, employment is a major factor in most peoples lives.[8] Work is integral to human flourishing and happiness. Each worker is a rational being who is naturally motivated to pursue his own happiness, able to discern opportunities and barriers to his happiness, and is cognizant that happiness is, for the most part, dependent upon his own efforts. There is an inextricable link between reason, self-interest, productive work, goal achievement, human flourishing, and happiness. Work is a concrete expression of rationality. Every productive human activity originates with mental effort and involves the translation of thought into a definite form. Every creative work and discovery contributes to human existence by increasing one's understanding of reality or by making human life longer, more secure, or more pleasurable.

Productiveness comprises an important existential content of virtue and is a moral responsibility of every person. At issue is not one's field of work, the level to which one rises, or how much one accomplishes. Since people differ with respect to their intelligence, talents, and circumstances, the moral issue becomes how one addresses his or her work given the person's potentialities and concrete circumstances.

A productive life not only builds character, it also requires virtuous work habits and adherence to basic ethical norms. There are many virtues associated with work including perseverance, patience, conscientiousness, self-control, obedience, cooperation, longanimity, constancy, honesty, integrity, fairness, and justice. Virtuous workers are energetic, productive workers who (1) think objectively, rationally, and logically; (2) focus on reality; (3) ask clear, pertinent questions and listen carefully; (4) use time efficiently and effectively; (5) search for facts in their total context before making judgments; (6) organize one's life and work toward worthwhile endeavors; and (7) set value-producing goals and strive to accomplish them.

Character Development

People can act morally or immorally in a capitalistic system just as they can in any other economic system. However, capitalism does possess a number of positive and morality-promoting characteristics that are absent or weak in other economic systems. Capitalism provides freedom of choice, fosters cooperation and mutual adjustment, respects the dignity and individuality of each person, provides accountability, limits and disperses power, promotes innovation and progress, and creates wealth for the masses.

Human flourishing, however, requires more than material wealth. Prosperity is a condition that enables each individual the opportunity to develop his potential and find happiness through the cultivation of his talents, abilities, and virtues.[9] Capitalism, the best system for wealth creation, permits individuals to spend less time on physical concerns thus giving them the time to turn to higher level pursuits of happiness such as religious pursuits, education, love, creative and fulfilling work, character development, and community building.

Happiness is related to one's self-esteem and includes both a person's self-efficacy and self-respect. Self-respect, in turn, stems from a person's character development. By allowing for individual autonomy and self-determination, capitalism gives each person the chance to develop his or her character—the internal source of external behavior. Self-direction involves the use of one's reason and is a necessary feature of human flourishing. Morality is a matter of character and the free exercise of will and judgment. The virtues are moral excellences—the lack of which diminishes self-respect. In a free society an individual must develop and earn his personal character. When a person develops a good personal character he will be happier, more satisfied, and more self-actualized.[10]

Commerce and Character

When commerce is conducted within a capitalistic society, virtue is promoted. The pursuit of profit reflects the presence of many of the virtues. The free market rewards polite, accommodating, tolerant, open, honest, realistic, trustworthy, discerning, creative, fair-dealing businessmen. In the long run, profitable businesses tend to be populated by good people (i.e., people of character), who, at a minimum, conduct business in accord with basic ethical principles calling for honesty, respect for persons and property, fidelity to commitments, justice, and fairness.

At the very least, a businessman is required to refrain from any rights-infringing activity. He should be honest and just in his dealings with others. For example, the most deserving employees should be promoted and the best bidders should be awarded contracts. Furthermore, a manager should not support governmental actions such as price supports, tariffs, quotas, and subsidies even though such policies may result in higher profits for his own company. To do so would involve the use of coercion, one step removed. To support such actions that violate natural rights is to undermine the principles of the free society on which business depends.

Business people have incentives to do the right thing. Lying and cheating may ruin the company's image and reputation. Mistreating workers will lead to decreased productivity, absenteeism, grievances, and employee turnover. Unsafe working conditions will lead to higher wage demands. Misinforming customers or giving them less than they bargained for will lead to reduced sales. Ignoring product safety could lead to accidents, lawsuits, and decreased sales. Taking advantage of suppliers may result in material shortages and possible shutdowns. Screening out potential employees because of race, gender, or other group characteristics means reducing the firm's chances of hiring the best workers. Excluding customers because of their group identity means losing sales to competitors.[11] Successful businesses seek out talented and virtuous managers who bring out the best in others, help employees develop and improve through training and supervision, provide advice and support, share values with others in the firm, and help workers recognize the wholeness of their lives.

Both religious and secular businessmen have a sense of calling that can come from a higher authority (God) or from an inner drive for self-fulfilment. Both types of businessmen search for something they were meant to do. A calling is unique to the individual, requires talent to do the job, and is accompanied by enjoyment and a sense of accomplishment, satisfaction, and renewed energy. A call is both to do something and to be something. An important aspect of having a calling is the idea of bringing creation nearer to perfection through creative work. Each person is involved in a life-task of human flourishing—to realize in community with others his or her own potential. Character development is a crucial ingredient in human flourishing. Business not only can build one's character, it can also reveal it. Unethical behavior often leads to personal and business disgrace.[12]

The Idea of Corporate Social Responsibility

The idea of corporate social responsibility emerged as an issue in the late nineteenth and early twentieth centuries, when corporations were criticized for being too large, too powerful, and for engaging in anti-competitive practices. Some business leaders, acting out of either paternalism or charity, began to use their private wealth for community and social purposes. A shift from individual philanthropy to corporate philanthropy evolved when community needs outpaced the resources of even the wealthiest individuals.

In addition, the concept of corporate social responsibility can be traced to actions taken and pronouncements made by American business leaders as strategic responses to anti-business sentiments that developed during this period. The goal of these business leaders was to promote corporations as forces for social good and thereby lessen the threat of governmental intervention. For example, the writings of Carnegie and other intellectual defenders of business espoused charity and stewardship principles and argued that a corporation must pursue profits and that its wealth should be used for the benefit of the community. Consequently, the stewardship principle was used to urge managers to view themselves as trustees of the public interest. Accordingly, managers should act in the interest of *all* those who can influence or be influenced by a firm's actions, not just the stockholders and directors, but the employees, officers, creditors, customers, suppliers, communities, competitors, government, and society in general.

While the purpose of undertaking socially responsible actions and issuing moral pronouncements was to appease reformers calling for legislation to control businesses, the actual result was to strengthen the power of the adversaries of business by acknowledging the social nature of the corporation. The idea of corporate social responsibility subsequently gained wide acceptance as diverse groups and social activists used the concept to rally for changes in American business.

Academics and other critics of the corporation, realizing the need for a "moral sanction" to ground the idea of corporate social responsibility, began proclaiming the doctrine that corporations are servants of society created by the state. Consequently, managers have been told that they should balance the multiple claims and interests of conflicting stakeholder groups. By so removing management decisions from their connections to the search for profit and the enhancement of stockholder value, managers have been assigned the impossible task of balancing competing stakeholder claims.[13]

This article challenges concession theory—the belief that corporations are common property and creatures of society that require state permission for their existence and are obliged to serve the public interest. A more realistic and compelling theory rests on the principles of choice, consent, voluntary association, contractual authorization, and individual rights (including property rights).[14]

The Corporation As Common Property: A Flawed Doctrine

Many advocates of corporate social responsibility emphasize the social nature of the corporation, which, they contend, exists as the result of a highly implicit and flexible social contract that determines its duties and rights. They portray the corporation as responsible to and subject to the will of society (i.e., the people). Both the state and the law are viewed as creatures of society. From this perspective, corporations are created by the government, which, in turn, owes its existence to society. Given this, it follows that corporations are actually made by society and are responsible to the public to serve whatever is deemed to be in the public interest or for the common good. (It is interesting to note that when corporate critics refer to the public interest or the common good, they are frequently referring to the good of some individual or group of individuals intent on imposing their own views or goals upon others.) Since the corporation only exists because of social permission, society is able legitimately to demand that a corporation perform certain activities that the owners and managers do not wish to perform. During the twentieth century, society has been reassessing its expectations of corporations and has pressured them to balance profit making with social responsibility. Social crusaders believe that corporations should be socially responsible both out of gratitude for their existence and out of a moral sense of reciprocation for the benefits received from society. In essence, the corporation is viewed more as common property than as private property. Some critics even propose that the corporation be brought under governmental control to ensure the common good.

From this erroneous point of view, the corporation is a fictitious person. The state controls its birth and death, and corporate powers are exercised as a matter of concession and privilege rather than of right. The corporation is a purely artificial creature of the state, strictly accountable for the limited functions it is granted. As a legal entity, distinct from its owners, the corporation, through its charter, gains privileges that the government confers. Thus, corporate status is conferred by public act rather than through private agreements, and, as a result, the corporation is vulnerable to state regulation. Concession theory holds that corporations owe their existence and gain their authority from the government, which, itself, acquires authority from the people. It follows that corporations are created for the benefit of society and must therefore serve the public interest.

Proponents of this perspective tend to suffer from the misconception that a society has a concrete existence apart from the individuals that comprise it. To use an abstract term such as *society* is simply to refer to a collection of individuals with innumerable projects, needs, and wants of their own. There is no such thing as the general will or group welfare apart from the wills and welfare possessed by each individual. A corporation is created by, owned by, and operated by a freely constituted group of individuals. The state merely recognizes and records the formation of corporations—it does not bring them into existence. This action by the state in no way binds the corporation to the service of the public interest.[15]

The Corporation Properly Understood: Private Property and Voluntary Association

A corporation is a community of people voluntarily working together for common and/or compatible goals and having, in varying degrees, shared values and concerns. It follows that people tend to join, stay, and succeed with one corporation rather than another because of their agreement with the goals and values of the corporation's stockholders, directors, officers, and employees. Corporations are properly viewed as voluntary associations and as private property. Arising from individual contracts, corporations are not created by the state—the state simply recognizes their incorporation as it does with births, marriages, sales of real estate, and so forth.

The state grants a charter as a legal technicality and neither creates nor changes the essence of these voluntary associations whose success depends on the social bonds that unite their members and on the human need for group membership. The state may choose to recognize these units but in so doing it simply acknowledges that which already exists. Corporations are expressions of individual freedom and need only respect individuals' natural rights and adhere to government regulations.

The unique features of the corporation can be explained in terms of its contractual origins rather than as special privileges. For example, limited liability is not a privilege that is guaranteed to a corporation—a would-be creditor can decline credit to a corporation unless one or more of its stockholders assume personal liability for the obligation. Limited liability is, therefore, the product of a contract between shareholders and creditors who find the provision acceptable.[16]

Stakeholder Theory As a Management Strategy

As a management strategy, stakeholder theory has merit and holds that effective corporate managers pay attention to those individuals and groups who are vital to the survival and success of the firm—shareholders, employees, suppliers, customers, the local community, and so forth. In this context, stakeholder theory only describes an approach for improving corporate profits—it suggests no other moral responsibility for corporations.

Socially responsible actions may be acceptable when the manager undertakes them in anticipation of effects that, in the long run, will be beneficial to business. A socially responsible investment should have a direct business purpose, involve cost-benefit analysis, and be expected to generate sufficient future net tangible benefits for the firm and its stockholders. The question is not whether an activity is in the interest of a firm, but whether it is enough in its interest to justify the expenditure.

Socially responsible actions and expenditures should be linked to business goals, thus tying in with the company's need to attract loyal customers, productive employees, and enthusiastic investors. Socially responsible activities can serve both the company's interests and those of the beneficiaries. For example, a firm's advertising and corporate philanthropy can be closely related. Linking charitable contributions in direct and measurable ways to the company's products or services helps to increase sales to customers whose social values affects its purchasing decisions. Donations to causes that improve the community can be used to attract skilled workers. Donations can also be given to research or educational programs that have obvious connections to the firm's economic interest. Company-sponsored employee volunteer programs help others, attract good employees, build character, create a sense of teamwork, and improve performance. Sponsoring wellness, safety, and health programs for employees can save money in lower health, accident, and life insurance premiums. Providing child-care, family leave, flextime, job sharing, employee assistance programs (e.g., counselling), and opportunities for telecommuting not only benefit the firm but also employees and their families. When a company humanely and effectively uses outplacement services for employees who are laid off due to strategic rightsizing, the result is not only a savings in severance payments, but also good public relations and maintenance of employee morale and productivity. Making profits can be in line with the social interest of rebuilding distressed communities, especially if the communities are viewed as underserved markets. By helping to renovate inner cities, firms can serve their own interests as well as those of the urban population. Earning the trust of consumers and community leaders can lead to long-term profitability.[17]

Stakeholder Theory: A Flawed Ethical Theory

The term *stakeholder* has been vaguely and broadly defined as "any identifiable group or individual who can affect or is affected by organizational performance in terms of its products, policies, and work processes."[18] Stakeholder theory becomes problematic when it is viewed as an ethical theory. Proponents of stakeholder theory attempt to base their argument on Kant's principle of respect for persons. For example, according to Evan and Freeman, each stakeholder group has a right to be treated as an end in itself and not as a means to some other end, and therefore, must participate in determining the future direction of the firm in which it has a stake. The corporation should be managed for the benefit of its stakeholders and the groups must participate in decisions that affect their welfare. Such participation is indirect with managers having the surrogate duty to represent the stakeholders' interests. Managers are said to have a fiduciary relationship to stakeholders and must act in the interests of the stakeholders as their agents.[19]

These stakeholder theorists misinterpret Kant's principle. What he actually taught was that every human being is entitled to be treated not "merely" as a means but also as an end in themselves. To regard persons as ends is to recognize that they are autonomous moral agents, which is the same as respecting individuals' natural rights to pursue their own goals and to associate with those of their own choosing. Respecting the autonomy of stakeholders does not imply that they are entitled to a hand in corporate decisions nor that the firm should be conducted in their interests. It merely means dealing with them in freely bargained transactions without the use of force or fraud.

When viewed as an ethical theory, stakeholder (or constituency) theory erroneously suggests that corporations are possessions and servants of society. As a result, managers have been told that they should treat all stakeholders as having equally important interests. This leaves managers wondering how to balance the multiple claims and interests of conflicting stakeholders. Without the explicit goal of returning the highest value to stockholders, managers would find themselves in the position of having to make essentially political rather than business decisions.

True Corporate Responsibility: Respect for Natural Rights

The social responsibility of the corporation through its directors, managers, and other employees, is simply to respect the natural rights of individuals. Individuals in a corporation have the legally enforceable responsibility or duty to respect the moral agency, space, or autonomy of persons. This involves the basic principle of the non-initiation of physical force and includes the obligation to honor contracts with managers, employees, customers, suppliers, and others; duties not to engage in deception, fraud, force, threats, theft, or coercion against others; and the responsibility to honor representations made to the local community.

Respect for contracts implies respect for individual rights. Beyond respecting individual contractual agreements, obeying the law, and adhering to the minimalist principle of non-injury, a corporation and its managers are not ethically required to be socially responsible. Customers, employers, suppliers, and others autonomously negotiate for and agree to contract with the corporation. Corporations and their managers are obligated to respect the rights of individuals within each group, but the rights are limited to the rights of parties in market transactions. The social responsibility of corporations is limited to respecting the natural rights of all individual parties.

Managers Are Agents of the Stockholders

In a free society all contracts are entered into voluntarily. Each person is free to associate with others for his or her own mutually agreeable purposes. The corporation is a form of property created by individuals in the exercise of their natural rights. The corporation is thus the result of a contract between individuals who wish to combine their resources and, if desired, to delegate a portion of the authority and responsibility for managing and using these resources. Managers, therefore, have the obligation to use the shareholders' money for specifically authorized shareholder purposes, which can range from the pursuit of profit to the expenditure of funds for social purposes. If managers use this money for activities not authorized by the shareholders, they would be guilty of spending others' money without their consent, failing in their contractual obligation to the owners, and, therefore, violating the rights of the shareholders. Owners have a property right in the corporation and a correlative right to engage in profit-making activities. It follows that those who act in their behalf (i.e., the managers) have a duty to carry out the wishes of the owners, who usually invest to make a profit.

Managers are employees of the shareholders and have a contractual and, hence, moral responsibility to fulfil the wishes of the shareholders. As a corporate executive, the manager is an agent of the corporation and has a fiduciary responsibility to the shareholders. Corporate social responsibility may be permitted within the limits of prior contractual agreements with the shareholders. This occurs when individuals organize corporations for reasons other than, or, in addition to, profit. Socially responsible actions such as charitable contributions may be acceptable when the manager makes these in anticipation of effects that, in the long run, will be beneficial to business.

As an individual, a manager may have other obligations that he should voluntarily assume by using his own money, time, and resources—not that of his employer. However, when functioning in his corporate capacity, he has a duty not to divert corporate funds from stockholders' authorized purposes.

Stockholders Are the Only True Stakeholders

According to stockholder theory, the obligation of a corporation and its managers to its stockholders is fiduciary. Stakeholder theory implies a multi-fiduciary approach that is inconsistent with free markets, property rights, and the view that there is a special fiduciary obligation owed by management to the stockholders. Since stockholders hire managers to serve their interests, managers are responsible to the stockholders. It follows that managers do not have the right or obligation to spend the stockholders' money in ways that have not been sanctioned by the owners. Corporations are simply arrangements whereby stockholders advance money to managers to use for specific ends. Managers are limited by their agency relationship to serve exclusively the objectives outlined by their stockholder principals. Expenditures for socially beneficial purposes are only legitimate when they have been authorized by the stockholders or when managers believe they will increase the firm's long-term profitability.

Stockholders are the only true stakeholders. One must invest in a corporation to actually have a stake in it. Other so-called stakeholder groups, with the possible exception of employees, have no stake or interest in the success of any specific corporation as long as the corporation is able to fulfil the freely contracted obligations it has with the stakeholder group. Stakeholders may be concerned how corporations affect them, but to have a stake in a particular firm requires one to care about its success, which, typically, requires a financial investment.[20]

The Mistaken Call for Corporate Constitutionalism

Reformers have mistakenly called for constitutionalism, a principle of public government, to be applied to the operation of the private corporation. Their fear is that freedom, without the existence of constitutional restraints, may lead to corporate absolutism in the economic sphere. According to critics, the concentration of the control of property in the hands of a few managers, no matter how dispersed the actual stock ownership may be, threatens the idea of pluralism. What has resulted has been a call for the development of means by which the powers of these "private governments" can be moderated in relation to those inside and outside of the firm.

There has been a recent demand for due process in corporations. Critics argue that when a corporation has the power to affect a great many lives, it should be subject to the same constraints under the Constitution that apply to the government. Some have advocated the control of the corporation by external agencies (e.g., federal chartering). Others have recommended control through internal, institutional devices such as: (1) placing stakeholder directors on the board; (2) social audits; (3) the preparation of community effect analyses; (4) the implementation of plant closing restrictions; (5) full-time, external, professional directors; (6) ethics committees; and (7) separating the board chair (external) from the president (internal).

Some critics maintain that corporations because of their size, special legal status, and economic, political, and social effects, have as much public power as do states. Therefore, as "private governments," they should be federally chartered, constitutionally limited, and held to higher levels of social responsibility than non-corporate firms. They argue that modern corporations represent large concentrations of power and have the potential to effect great changes in society. In other words, social responsibility arises from social power. Because corporations can affect the interests of others, they must be concerned with social responsibility. Advocates of corporate democracy theory even go so far as to call for restraints on the control of shareholders and managers so that the corporation can be run as a democracy in the interests of its constituents.[21] Reformers have failed to recognize that commerce is essentially different from government and that methods appropriate to government are not germane to commerce. Unlike coercive governmental power, commerce is based on ideas such as trade, voluntary agreements, honesty, openness to strangers, competition, inventiveness, efficiency, initiative, thriftiness, dissent for the sake of the job, and so forth.[22]

Corporate Governance Requires the Freedom to Create and to Execute

Michael Novak observes in *The Fire of Invention: Civil Society and the Future of the Corporation* that corporations are nothing like states. In government, executive power is feared and thus checked—in the corporation it is desired and therefore fostered. Since a corporation is not a political community, checks and balances are not appropriate to it. In a corporation, the whole idea is to accomplish certain goals and to create something new. In government, the point is to keep leaders from doing anything beyond their stated powers. In corporations, we value swift action. Contrariwise, in government, we desire judiciousness and deliberation. No one should desire a "separation of powers" within a corporation. Executives must be permitted to execute.[23]

With respect to corporate governance, owners are in sufficient control through the buying and selling of shares and other actions. Discontented shareholders theoretically may bring suit against the directors and managers when they spend the shareholders' money on unauthorized projects that are not in the owners' interest or engage in other *ultra vires* acts. However, it is more likely that they will vote against such directors, remove the managers, or simply sell their shares.

In a publicly owned corporation, the owners may be located all over the world. However, it is more probable that a large percentage of the shares of any major firm will be owned by particular mutual funds and pension plans, which act as proxies for a large number of individuals. The relationships between shareholders and corporate managers and shareholders and money managers are principal-agent relationships. The growth of mutual funds and pension plans means broader stock ownership and stronger pressure on behalf of stockholders to keep managers in line. Since directors of mutual funds and pension plans want to invest in highly profitable firms, there is a powerful motivation for corporate directors and managers to work hard. Money managers, as agents of the absentee-owner shareholders, can vote a chief executive officer out of office by taking control of the board of directors or by selling the stock of companies from which they no longer expect competitive returns.

We are in an era in which there is a concentration of ownership in the hands of a relatively small number of decision-makers. However, in fact, legal ownership is still widely dispersed and the fiduciary duty of the money managers of mutual funds and pension plans gives them the responsibility to exercise the powers of ownership. The fiduciary standard requires that the fiduciary trustees take only those actions that a prudent person would take in the management of resources. In discharging their fiduciary duty, money managers purchase securities and vote proxies. In essence, they exercise ownership rights, on behalf of their beneficiaries.

The idea of the morality of the principal-agent relationship is certainly not new. For example, consider the Parable of the Talents in which the master entrusted assets to three servants and then departed the country, thereby creating a situation involving the separation of ownership and control. Two of the servants invested the assets, were productive, and therefore rewarded when the master returned. The third buried the assets, returned them without earning any interest on them, and was punished. This story clearly illustrates that separating control from ownership does not strip the owner of his rights. Today, we have simply added the idea of the fiduciary responsibility of the mutual fund or pension plan manager as a middleman, between the owners and the managers of a corporation.

Corporations Do Not Possess the Power of Coercion

Not only would constitutional measures reduce the efficiency and effectiveness of corporations, some (e.g., proposals for stakeholder and external directors) would also ensure directors with relatively little relevant experience. More important, these measures would restrict the rights of private property owners. Ethically, a corporation's "power" is irrelevant. Unlike government, a corporation does not enjoy the power of coercion. Only the state can force people to do things through its political, military, and police power. When a business offers a *quid pro quo* to its potential customers and employees, it simply adds to their existing set of options—this, in no way, constitutes an exercise of power. Therefore, only governments should be constitutionally limited by legal restraints.

What about the abuse of power by managers within a corporation? Certainly, corporations must command others and provide the means necessary to obtain obedience to these commands. Authority, the right to be obeyed by others, requires power. In a firm, authority and power should be restricted to assigned legitimate areas. Power exercised without authority is illegitimate. Any well-run firm will have internal due process policies and procedures to provide some assurance of non-arbitrariness by requiring those who exercise authority to justify their actions. In a free society, if management's order is not agreeable to a worker who believes it to be arbitrary or not within the manager's legitimate sphere of authority the worker can: (1) initiate the firm's due process procedures; (2) practice constancy by ignoring the manager's abuse of authority; or (3) terminate his relationship with the company.

Conclusion

Capitalism is a political and economic system in which an individual's rights to life, liberty, and property are protected by law. It is the system most able to make personal flourishing possible. By securing personal freedom, capitalism makes the successful pursuit of individual happiness more likely. A capitalist society can be viewed as a just society since all individuals are considered to be equal under the law.

By permitting market transactions, capitalism allows for business to exist as a set of voluntary and organized human activities. Market exchange is a type of cooperation that increases one's ability to act on his own best judgment regarding what will enhance his own well-being. Dealing with others by means of voluntary trade involves a relationship based on the mutual estimation that a particular exchange is to the advantage of each participant.

Human intelligence enables us to discover the earth's productive potential, our capacity to transform the world through work, and the many ways in which human needs can be met. It is through work that a person, using freedom and rationality, is fulfilled and succeeds in subduing the earth and making it a suitable habitat for human beings. Work is an important vehicle for achieving one's personal flourishing and happiness.

Commerce can be viewed as the social product of human concern with the intellectual and moral virtue of prudence. To be prudent is to apply intelligence to changing circumstances by acting in the right manner, at the right time, and for the right reasons. Commerce is a proper, morally justified area of human action in which businessmen are concerned with attaining economic well-being. Businessmen succeed by producing wealth and by freely trading with others. Businessmen transform potential wealth into physical products and services by combining human innovations and discoveries with human labor and natural resources.

The corporation, a private economic instrument, is created by voluntary contractual agreement between individuals seeking to promote their financial self-interest. Managers, as trustees of the stockholders, are responsible for the profitable use of capital entrusted to them by the owners. It is up to the individual shareholder to decide whether any of the proceeds from the profitable activities of the corporation are to be used in socially responsible endeavors. Of course, social problems can provide profit-making opportunities. It is possible for a manager to value a socially responsible activity as a means to profit making and, at the same time, to value the action as good in itself. However, it is essential that the manager not forget his fiduciary obligation to the shareholder and the central place of profitability in the survival and success of the company.

Notes

1. Capitalism as defined in this paper (i.e., uncompromising laissez-faire capitalism) involves that set of economic arrangements that could exist in a society where the state's only function would be to prevent one person from using force or fraud against another person.

2. For thorough discussions of the concept of natural rights, see Richard Tuck, *Natural Rights Theories: Their Origin and Development* (Cambridge: Cambridge University Press, 1979); Douglas B. Rasmussen and Douglas J. Den Uyl, *Liberty and Nature* (LaSalle, Ill.: Open Court, 1991); Henry B. Veatch, *Human Rights: Fact or Fancy?* (Baton Rouge: Louisiana State University Press, 1985); Tibor R. Machan, *Human Rights and Human Liberties* (Chicago: Nelson-Hall Company, 1975); John Finnis, *Natural Law and Natural Rights* (Oxford: Oxford University Press, 1980); Leo Strauss, *Natural Rights and History* (Chicago: University of Chicago Press, 1953); and Tara Smith, *Moral Rights and Political Freedom* (Lanham, Md.: Rowman and Littlefield, 1995).

3. See chapter 4 in *Liberty and Nature* for a discussion of the common good.

4. Charles Murray, *In Pursuit of Happiness and Good Government* (New York: Simon and Schuster, 1988).

5. Douglas B. Rasmussen, "Community Versus Liberty," in *Liberty for the Twenty-First Century*, ed. Tibor R. Machan and Douglas B. Rasmussen (Lanham, Md.: Rowman and Littlefield, 1995).

6. Michael Novak, *The Spirit of Democratic Capitalism* (New York: Simon and Schuster, 1982), especially chap. 6.

7. Michael Novak, *The Fire of Invention: Civil Society and the Future of the Corporation* (New York: Free Press, 1997), especially chap. 1.

8. See Adriano Tilgher, *Work: What It Has Meant to Men Through the Ages* (London: George C. Harrap and Company, 1931); Max Weber, *The Protestant Ethic and the Rise of Capitalism* (New York: Charles Scribner's Sons, 1930); Frederick Herzburg, *Work and the Nature of Man* (New York: World Publishing Company, 1966); and H. Applebaum, *The Concept of Work* (New York: State University of New York Press, 1992).

9. For discussions within the Aristotelian tradition of how the natural right to liberty is a social and political precondition for personal flourishing, see Rasmussen and Den Uyl, *Liberty and Nature*; David L. Norton, *Personal Destinies: A Philosophy of Ethical Individualism* (Princeton: Princeton University Press, 1976); and Edward W. Younkins, "Personal Flourishing: A Case for the Minimal State," *The Social Critic* (Spring 1998).

10. Those wishing to examine character ethics in more depth should consult Stephen R. Covey, *The Seven Habits of Highly Effective People* (New York: Simon and Schuster, 1989); and Christina Sommers and Fred Sommers, *Vice and Virtue in Everyday Life* (New York: Harcourt, Brace and Jovanovich, 1993).

11. Readers interested in studying the morality of commerce within a free-market system and from the perspective of classical self-actualizing ethics should see Tibor R. Machan, ed., *Commerce and Morality* (Totowa, N.J.: Rowman and Littlefield, 1988). An Aristotelian approach to business ethics is taken in Robert C. Solomon, *Ethics and Excellence* (New York: Oxford University Press, 1993).

12. Michael Novak's *Business As a Calling* (New York: Free Press, 1996) is, in my estimation, the best book written on business as a calling.

13. For an excellent discussion of the nature and responsibilities of the corporation, see Fred D. Miller, Jr. and John Ahrens, "The Social Responsibility of Corporations," in *Commerce and Morality*, ed. Tibor R. Machan (Totowa, N.J.: Rowman and Littlefield, 1988), 140–60; Robert Hessen, *In Defense of the Corporation* (Stanford, Calif.: Hoover Institution Press, 1979); and Douglas J. Den Uyl, *The New Crusaders* (Bowling Green, Ohio: Social Philosophy and Policy Center, 1984).

14. Hessen, *In Defense of the Corporation*.

15. Ibid.

16. Ibid.

17. John M. Hood, *The Heroic Enterprise* (New York: Free Press, 1996) provides specific examples of how actual companies can and do serve society through the pursuit of profit.

18. Anthony F. Buono and Laurence T. Nichols, "Stockholder and Stakeholder Interpretations of Business' Social Role," in *Business Ethics*, ed. W. Michael Hoffman and Jennifer Mills More (New York: McGraw-Hill, 1990), 171.

19. William M. Evan and R. Edward Freeman, "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism," in *Ethical Theory and Business*, ed. Tom L. Beauchamp and Norman E. Bowie (Englewood Cliffs, N.J., Prentice-Hall, 1993), 75–84.

20. Den Uyl, *The New Crusaders*; and F. A. Hayek, "The Corporation in a Democratic Society: In Whose Interest Ought It and Will It Be Run?," in *Management in the Corporation: 1985*, ed. Melvin Anshen and George Bach (New York: McGraw-Hill, 1960).

21. R. Nader, M. Green, and J. Seligman, *Taming the Giant Corporation* (New York: W. W. Norton, 1976); and *Constitutionalizing the Corporation: The Case for Federal Chartering of Giant Corporations* (Washington, D.C.: Corporate Accountability Research Group, 1976).

22. Jane Jacobs, *Systems of Survival: A Dialogue on the Moral Foundations of Commerce and Politics* (New York: Random House, 1992).

23. Novak, *The Fire of Invention*.