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Doing Justice to Entrepreneurial (and Other) Responsibilities

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Largely missing from the liberal tradition's economic and political doctrines is an idea of the political community in its own right with its own purpose. Liberal government is a reflex of free persons rather than an office of responsibility in a political community recognized to be as original to human identity as life, property, and economic enterprising. This article argues that the flourishing of entrepreneurial responsibilities requires a political community constituted, first of all, to guard the public trust and the commonwealth and to protect a wide range of human responsibilities. Only in such a framework can the limits of government be properly defined so that nonpolitical responsibilities are able to flourish in a stable and just public order. The argument for a "responsibilities economy," upheld by a just political community, concludes with illustrative reference to family life, schooling, and business/finance.

Few if any economists would argue that anarchy is the only way to make freedom for enterprising possible. Some argument for justice lies behind the idea of protecting life, liberty, and property. The questions are how should justice be done, who is responsible for doing it, and how should "protecting" be related to "free enterprising." One of the chief difficulties in answering these questions in the United States and other liberal societies is that government—recognized as the protector—is thought of largely as a reflex of individual and market freedom. Consequently, the issue of "doing justice," is approached rather narrowly as protecting what is not governmental. In this article, I will argue that what is missing in the liberal picture is the original setting and purpose of government. Government exists within, and to do justice to, a political community, and, to properly exercise the responsibilities of its office it must, among other things, do justice to that which does not originate with the political community, including individual and entrepreneurial responsibilities. Key to the last sentence and to the argument that follows are the words *political community* and *among other things*.

The responsibility to do justice does not belong only to governments in political communities. A family should do right by all its members in order to sustain its bond of love. A business, which exists for economic purposes, should do justice to all who have a role in it as investors, managers, and employees, as well as to those who sell to it and buy from it. The obligation to do justice, to be fair and equitable, is one of the norms or standards that holds us accountable in all that we do. It calls us to account in our families, businesses, schools, churches, and science laboratories, as well as in the political community. What distinguishes government in a political community from other kinds of human relationships is that the former exists for the very purpose of doing justice; the political community is *qualified* or *distinguished* by the obligation to do justice. This is something quite different from parents treating their children equitably within the home, or businesses doing right by all who are connected with their companies. Justice for all, in a comprehensive sense, has to do with the way an entire society is constituted. Our question, then, is about *constitutional justice*; the way a society is *constituted* is a matter of *public* justice, fairness, and equity. By way of introduction, let me first say something more about liberalism.

Liberalism and Justice

A liberally constituted society, as proposed by John Locke and practiced to a significant degree in the United States, is one that accepts government for the purpose of protecting the lives and properties of free individuals. Individuals come first, not an imaginary social body. Government, consequently, is a reflex of the individuals who choose freely to establish it. From a liberal point of view, justice for all means making room for each individual to go about his or her life as each chooses, entailing a laissez-faire attitude on the part of government toward the market. Given its liberal purpose, government should have only limited authority and should protect private property and free-market exchanges. Therefore, a liberal society is a capitalist society in which capital is privately owned.

From a liberal perspective, there is no such thing as an innate propensity in individuals to build political communities. We are not by nature political animals (*homo politicus*) in the way we are naturally economic animals (*homo economicus*).[1] As Christopher Caldwell said, referring to those who stand in the liberal tradition, “In general we are bad at thinking about ‘the commons.’”[2] Each of us thinks instead about realizing one's own interests and protecting one's own life and property. When and where government is necessary it is created to serve as a means to all those private ends. One might say that in the liberal picture of a justly constituted society the justice function is subordinated to the economic freedom function.

It is easiest to recognize the liberalism just described in the arguments of libertarians—those who want maximum individual freedom and the most restricted role for government. However, liberals at the other end of the spectrum start from much the same place. For example, Thomas Friedman, well-known author and globetrotting journalist, told an interviewer: "I think of myself as a progressive.… I believe in free markets and in social welfare and I believe that only if you have a free market will you have social safety nets to take care of people brutalized in the marketplace."[3] If libertarians want government to leave the market alone, progressives such as Friedman want government to establish social safety nets. Justice, in his mind, somehow demands more than freedom for enterprise; it requires a degree of "after care"—of remedial justice or an ambulance service for victims of the market. Friedman makes no mention of "pre-care," which would imply that government bears some original responsibility to establish a just political community as the basis for economic and other activities. The constitution of a just society for Friedman starts with market freedom that will generate enough extra wealth to pay for the ambulance services needed to pick up those who do not make out so well in the marketplace.

According to John Kay, there is not much *popular* support for this kind of "redistributive market liberalism" (the liberalism of Thomas Friedman), the essence of which "is insistence on a division between issues of allocation of economic resources—to be left to the private sector—and the distribution of economic resources—a responsibility of government."[4] However, says Kay, this view "is the most widely espoused political philosophy among economists," and he contrasts it with democratic socialism, which holds that "the activities of private businesses should be subject to democratic political control."

Friedman's and Kay's comments about safety nets and redistributive market liberalism describe pretty well the way American society has tried to address what Duncan Foley calls "Adam's fallacy."[5] The Adam to whom Foley is referring is Adam Smith who argued that the individual pursuit of self-interest in a free market will generate greater wealth and benefits for a nation than if government were to try to achieve those results through direct control of economic decision-making. It is not that Smith ignored or rejected important things government should do to protect market freedom and the lives of the poor, but he believed that government should not try to interfere in the pursuit of economic self-interest.[6] Smith believed, in other words, as Foley interprets him, that the pursuit of self-interest by entrepreneurs and capitalists is the responsible thing to do because the greater wealth they produce will ultimately benefit the whole society.

> Smith asserts the apparently self-contradictory notion that capitalism transforms selfishness into its opposite: regard and service for others. Thus by being selfish within the rules of capitalist property relations, Smith promises, we are actually being good to our fellow human beings. With this amazing argument, Smith proposes to absolve us of the moral ambiguity and pain that haunt capitalist reality.… The moral fallacy of Smith's position is that it urges us to accept direct and concrete evil in order that indirect and abstract good may come of it. The logical fallacy is that neither Smith nor any of his successors has been able to demonstrate rigorously and robustly how private selfishness turns into public altruism.[7]

Actually, Smith was convinced from the evidence that a nation with free markets and freedom for enterprising is not countenancing evil but is permitting a private means to bring about growing wealth that yields concrete (not abstract) positive benefits to the whole of society. Yet, those benefits can be realized only if each entrepreneur is allowed to pursue his own work in terms of his own interest. That is why the pursuit of a business's own interest is morally legitimate, in Smith's estimation, because society's benefits derive from the growing prosperity generated by those who are free to exchange and compete with one another in an open market. The prosperity of the society as a whole, therefore, comes about indirectly by the guidance and coordination of an "invisible hand"—not by direct public determination.

The government, on behalf of the public, should thus remain largely passive with respect to the market in order to allow the invisible hand to do its work. The problem Foley is getting at is Smith's failure to show a demonstrable connection between what I would describe as the economically qualified acts of private enterprises (which do not have to be selfish or evil) and the justice-qualified common good of the political community for which, I contend, government should be exercising its authority. The reason Foley sees Smith's argument as a fallacy is because the government, in Smith's view, is supposed to remain largely passive with regard to the translation of a multiplicity of private, self-interested acts into a larger common wealth. The connection, as Foley sees it, is made as if by magic or alchemy rather than by intentional, morally oriented acts of government, and the fact is that while market capitalism may indeed generate many private goods, it does not assure that everyone in society benefits equitably or automatically from that prosperity. The problem, as I am trying to frame it, is that neither Smith nor Foley makes an adequate distinction between two different types of human responsibility—business activity in the market and governmental action to uphold a just political community.

Generally speaking, the libertarian response to Adam's fallacy is to insist that there is no fallacy. If the conscience of free individuals bids them to reach out privately to assist neighbors in need, that is laudable and in keeping with individual freedom, but social-service philanthropy is not government's job. In fact, government's benevolence can get in the way of market disciplines that are essential for economic efficiency and growth and without the latter there will not be as much private wealth to share. At the other end of the American spectrum, the progressive liberal response to Adam's fallacy is, generally speaking, the one offered by Friedman. Government should be expected to fulfill two different kinds of economic responsibility: One is to keep the marketplace as free as possible for the pursuit of economic self-interest so that more and more wealth can be generated; the second is for government to extract by taxation some of the wealth produced by private enterprise to provide safety nets for individuals who do not benefit as much from, or are hurt by, the private capitalist system. This should be done for the safety, security, and peace of the society as a whole even if such actions cause some economic inefficiencies in the market. In both the libertarian and progressive liberal responses moral approval is given to the pursuit of self-interest in the free market as the unquestioned starting point for, and the chief means of, producing the goods that benefit the wider society. What is missing, however, is any idea of the political community that has an identity and purpose of its own prior to and independent of the market.

What we often face in times of financial and economic crisis, as now, is a problem not adequately addressed by the liberal doctrines summarized above. What should be done if market-disciplined enterprises do not generate a continuing upward climb of prosperity but come to face a severe recession, or even a depression? Should government continue to remain passive and allow the market to correct itself? Is that not what a free market is supposed to do, and, is that not what bankruptcy laws are supposed to facilitate? Yet, what if the spiral downward threatens the collapse of the whole economy as happened in the Great Depression and most recently in the events that have transpired since 2007? Is there any basis in liberal doctrine for government's interference in the market at the point of great danger not to ameliorate the pain of a few people but to save the market from itself?

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Liberalism and the Great Recession

When President George W. Bush and treasury secretary Hank Paulson were moved to take emergency action late in 2008 to try to save the country from financial collapse, they spoke in terms that seemed to defy the logic of free-market liberalism and their own convictions. They admitted they did not want to do what they were doing to bail out financial companies and some other businesses, but they did so anyway. In late December 2008, when the president announced a $17 billion federal loan to General Motors and Chrysler, for example, he said, "If we were to allow the free market to take its course now, it would almost certainly lead to disorderly bankruptcy and liquidation for the automakers," and he could not let that happen.[8] Why could he not let the market do what it is supposed to do? Was he admitting that the market is not self-regulating after all and that some other principle of public justice trumped free-market principles? Moreover, what is the precise difference between bankruptcy and disorderly bankruptcy? He offered no explanation. Pragmatism seemed to triumph over principle.

Whether he was aware of it or not, President Bush's actions revealed something more in keeping with progressive liberalism than with libertarian liberalism. If the reason government exists is to protect free individuals and their prosperity, then business enterprises and the government share essentially the same purpose, namely, to sustain freedom for private enterprising so that economic growth can continue to benefit both businesses and the larger society. In good times, this will mean that government keeps its hands off businesses and the market so economic growth can supply jobs and almost everything else people need and want. In hard times, however, it will mean that government does whatever is necessary to slow or shorten economic decline even if that means interfering with market disciplines and taking over some of the economic responsibilities that ordinarily belong to independent enterprises. Those who believe that government's actions during hard times contradict free-market principles fail to see that in progressive liberal doctrine enterprises depend on government as a partner that shares responsibility for promoting economic growth and ameliorating its decline. Sometimes, when the enterprises mess up, the partner has to come in to bail them out for the sake of the economy that is public and not only private.

The appearance of a moral fallacy or a flaw in this thinking is due only to a misunderstanding of progressive liberalism. There will always be those on the right who think government goes too far in interfering with market disciplines and economic freedom, and there will always be those on the left who think government does not do enough to overcome economic inequalities so all individuals can share in growing prosperity and better survive economic downturns.

Pragmatic liberals, whether right of center or left of center, start with the ideal of free individuals, free enterprises, free markets, and government as partner in the one great cause of achieving economic growth for as many people as possible.

Commentator Sebastian Mallaby sums up this view of society quite clearly in reminding his readers that we live in a *mixed* economy, that is, a *single* economy that mixes private and public enterprises. The more developed a society becomes, the more public goods citizens want, not all of which can be produced by free enterprise. Public goods, says Mallaby, are "the things that government produces: security (from criminals and terrorists), clean air and water, food and medicine whose safety is guaranteed by regulators, public education, and so on."[9] Yet, says Mallaby, we need to remember that "free markets do a lot of jobs better than government," so we should not hesitate to "embrace growing government but also be ruthless about making government and markets more efficient. If your private-sector engine is shrinking relative to your public-sector vehicle, you need to root out every design flaw that threatens to slow you down."[10] There is, in this view, only one arena and one aim that together constitute the American way of life. The public sector's government-supplied goods represent the vehicle moved by the engine of business that supplies privately marketed goods. That single, engine-driven vehicle—America—must do everything possible not to slow down. Government and private enterprises are partners in one grand venture of promoting economic growth as speedily as possible. In this faith-grounded picture there is no significant difference in the institutional purposes of government and business. The two are partners in the same great cause of the market society's quest for constantly expanding prosperity that fuels the progress of freedom.

Some cautious liberals decry the failure of government to maintain its distinctive responsibility to guard the public from being used by the risk-taking of private risk takers, a mode of behavior referred to as "moral hazard." Financier Henry Kaufman argues in a 2009 book, reviewed by John Plender, that the U.S. Federal Reserve (the Fed) "tended to be hands-off in the upturn but super-active in loosening policy and rescuing overextended financial institutions when asset prices collapsed. This morally hazardous double standard was a recipe for ever greater risk taking. It also helps to explain the extraordinary build-up of U.S. household debt since the 1980s and the current threat of deflation."[11]

The great recession has also revealed, as some see it, the extent to which finance, as compared with manufacturing and other services, has become the tail that wags the dog of liberal capitalism in the United States. The proportion of the American economy now defined or controlled by finance has been growing rapidly since the 1970s. One economic crisis after another has rocked the country, and sometimes much of the world, because of the cycle of over-leveraged financial expansion followed by collapse.[12] Our capitalist system appears to be experiencing more frequent crises and has not yet shown that it can deliver continuing, steady growth. Thus, the myth of ever-increasing growth is also losing its power to motivate Americans and many in other countries.

A Faulty Government Architecture

Looking through liberal glasses, one sees only individuals in pursuit of their own interests who choose to use or put up with government as a means to their own ends.[13] Those individuals have supposedly created government for the purpose of protecting their freedom including their economic freedom. What typically goes unrecognized, however, by those committed to this view of economic life is the very existence of a political community of citizens and government with its own reason for being, its own responsibility, and its own tasks that are not a mere reflex of individual and market freedom. In my view, this is the largest, most consequential blind spot in American public life. Yet, it is not just liberal ideology that keeps us from recognizing the political community. In the United States, our federal system of government was designed to frustrate a direct connection between citizens and the national government. Americans have a much more direct connection to the governments of their towns, cities, counties, and states. By contrast, they have difficulty recognizing the federal government as the servant of a national political community in which their membership entails the responsibilities of citizenship.

The federal government, after all, was established not to represent and uphold justice within a national polity of responsible citizens but to protect and defend the states and to regulate interstate commerce. American citizens do not directly elect any nationwide representatives in the federal government except the president, and even in the case of the president, there is that peculiar institution of the Electoral College that can frustrate a majority vote. Every member of the House of Representatives and the Senate is elected by local constituents—not by a national electorate. The states were the original political communities in our system; the federal government is a distant, secondary means to the end of protecting the states, individual rights, and commerce.[14] Therefore, the liberal view of government as something established out of grudging necessity rather than as an expression of inherent political responsibility is reinforced by the American federal system. The federal government stands over against us as either a useful means for, or a hindrance to, the exercise of individual freedom—freedom for business and commerce, for speech, for religion, and so forth. Even though an American national polity began to take shape between the time of the Civil War and the end of Second World War, it was—and still is—a polity constrained by a relatively weak sense of civic solidarity (in contrast to national, civil-religious solidarity) and an often ineffectual federal government, dominated as it increasingly is by interest-group brokering.

A liberal point of view, in other words, in our system of weak national government opens the way for economic and other interests to try, as rent seekers, to turn government to their own ends. If government is believed to be merely a reflex of individual freedom, then those with property and interests powerful enough to influence a majority (and at times only a minority) can "capture" government to advance their own interests. Theodore Lowi wrote the first full description and assessment of the rise of "interest-group liberalism" decades ago, and that process is far more advanced today than it was then.[15]

Financial Times columnist John Kay explains that most interest groups believe they are seeking an outcome that will benefit the public, while others unabashedly go about seeking their own interests.

> When self-interested lobbying becomes dominant, voting is based on economic interest. Coalitions are formed in which I will support benefits to you if you will support benefits for me. Measures are adopted [by legislatures] that give largesse to small groups—farmers or defense manufacturers—for whom it is worthwhile to invest in lobbying, at the expense of small costs to a wide public. This view of politics as a marketplace is the theory of public choice, pioneered by James Buchanan. Public choice theory gives some insight into modern American politics.[16]

There is much evidence from the recent great recession and many responses to it of government's inattention to the public trust in contrast to its overly strong attention to financial interests. In this respect, government has failed to uphold the common good of the republic due to its focus on trying to maximize economic growth. Simon Johnson, writing in May 2009, detailed interest-group successes of financial companies both before and during the crisis. Financiers, says Johnson, "played a central role in creating the crisis, making ever-larger gambles, with the implicit backing of the government, until the inevitable collapse. More alarming, they are now using their influence to prevent precisely the sorts of reforms that are needed, and fast, to pull the economy out of its nosedive. The government seems helpless, or unwilling, to act against them."[17] Why would the government go along with this and not take strong, independent action? "In a society that celebrates the idea of making money," Johnson responds, "it was easy to infer that the interests of the financial sector were the same as the interests of the country—and that the winners in the financial sector knew better what was good for America than did the career civil servants in Washington. Faith in free financial markets grew into conventional wisdom—trumpeted on the editorial pages of *The Wall Street Journal* and on the floor of Congress."[18]

A Responsibilities Economy

In calling for a recognition of the political community in its own right as a community of public justice with responsibility to protect all human responsibilities, I am urging an approach to economic life that might be called a "responsibilities economy." The debates between libertarian and progressive liberals do not allow for a proper recognition of the many different types of human responsibility, including the responsibilities of citizens and government for an independent political community. There is certainly room to argue that economic activities deserve recognition and independence so they can be carried out properly. Freedom for entrepreneurial responsibility and economic exchange in open markets is important for the development of economic capabilities and widespread prosperity. However, economic life does not exist by itself in its own world, and its positive contributions should not be the chief end or guiding purpose of political life. There is more to the meaning of life than freedom for economically qualified pursuits.

One of the most important implications of this argument is that businesses, just like government, need to be clearly defined with regard to their purpose and limits. We generally accept the importance of the U.S. Constitution for defining the limits of the federal government. It is much harder, however, to identify the limits and qualified purpose of a business enterprise beyond its goal of making profits for shareholders. There is a long legal background to this, having to do, in part, with the erosion of the *ultra vires* doctrine in law. "Traditionally," Kent Greenfield explains, "the corporation's powers were limited to the explicit objectives of the corporation as defined in the corporate charter, and any act beyond those powers was ultra vires—'beyond the power' of the corporation."[19] Under the impact of government's desire to promote economic growth, however, it became less important and ever more costly to enforce the ultra vires doctrine. Greenfield goes on:

> Shareholders and the state also came to recognize that their interests, too, would be served by a weakening of the doctrine. Individual states realized that it was untenable for them to attempt to retain a strong policy of limited capacity for corporations as they began to compete for corporate charters with other states. States competed by offering statutes that, first, allowed corporations to list any number of authorized activities and power and, later, that required no listing

> of specific powers at all. Similarly, shareholder interests were decreasingly served by a strong ultra vires doctrine. Once the shareholder supremacy norm was firmly established, any limitation on the uses of shareholder capital was counterproductive. It became evident that shareholders wanted managers to use equity capital in whatever way necessary to maximize shareholder return.[20]

Markets for economic exchange are only one part of the public commons in which all kinds of exchanges, communications, and relationships must coexist. Consequently, government bears responsibility to maintain the commons—the public square—not just for market purposes but also for the exercise of many other responsibilities. Government, therefore, should not leave the market alone (laissez faire) in the sense of allowing it to come under the control of dominant participants who can do whatever they want because there is little or no legal limit to what they can do. Economic enterprises of all kinds should enjoy freedom in the marketplace, to be sure, but their purpose, limits, and power should be defined clearly not only for their own guidance but also to protect organizations with other purposes. Perhaps most importantly, corporations should not have the kind of political influence that allows them to write government's rules for the governance of the commonwealth.

To argue that government serves a political community with its own identity and purpose is *not*, in the first place, to make an economic statement at all. Government's responsibility on behalf of the political community is to uphold the common good of a pluralistic, highly differentiated society, including economic responsibilities; it is not to act on behalf of, or to broker deals among, particular interests. To be sure, the government of a political community should not try to make the business decisions of farmers, car manufacturers, or bankers. Neither should government and its policies be so influenced by farmers, car manufacturers, or bankers that the public interest is reduced, in the name of "the people," to a sum total of the brokered agreements Congress reaches with interest-group lobbyists.

A flourishing economic life, which fosters the development of more and more human talents and capabilities in responsible freedom, is something that a political community should protect and support as part of a responsibilities economy. Yet, the way a government serves its citizens, who are also parents, children, students, educators, scientists, artists, doctors, lawyers, employers, and employees, is by making sure that justice is done to all of them in their independence and in their common bond in the political community. Government will, and should make many decisions that affect economic and other responsibilities as it works to fulfill its responsibility to uphold public justice.

Now, one might respond by pointing to the history of oppression and injustice perpetrated by governments. Why should we trust government to do anything right? If one poses the question that way, however, should we not also acknowledge the failures of parents in families, of business leaders in businesses, and of teachers in schools and ask why we should trust any of them to do what is right and fitting? Humans can and do fail in every one of their responsibilities. However, those failures do not obliterate (or call for the demolishing of) the distinguishable obligations that press in upon us in our families, businesses, schools, churches, and political communities. Of course, if the government of a political community fails to uphold public justice, or is captured by interest groups that manage to turn public policies to their own benefit, or overreaches in the exercise of its responsibility and thereby fails to recognize and protect other human responsibilities, then that political community is to that degree unjust. Yet, this truth simply takes us back to the question of what should constitute a just political community and of how citizens should exercise our civic responsibilities to hold government accountable to do justice. How can government best be held accountable to govern the political community justly while at the same time exercising a limited authority that does not overreach into every other arena of human life? How can government's laws reach out to touch the whole of society, yet not displace or interfere with the responsibilities that belong to individuals and nonpolitical organizations? What we need is a polity recognized as having its own reason for being, which is to maintain the public communal bond of fairness and justice among all citizens and residents, making room for our diversely qualified organizations to flourish.[21]

Three Illustrations

Let me try to illustrate my argument for recognizing the independence of the political community and a "responsibilities economy" by touching on three arenas of nongovernment responsibility where public law and the obligations of the political community come to bear.

Family

A family has its own identity and internal responsibilities that the political community should recognize and protect, not allowing economic processes or public policies to undermine or disrupt it. At the same time, the political community depends on family stability and child rearing for the present and future quality of citizenship as well as for many other contributions families make to society. It is not at all unreasonable, then, for governments to enact policies such as tax deductions or direct supplements for families during the time they are responsible for dependent children or other dependent family members. It also makes sense for governments, in the interest of the maturation of citizens, to subsidize the costs of educating children. Such policies need not entail an illegitimate intrusion of government into family responsibilities. These and other acts of government can encourage families in the fulfillment of their own responsibilities while enhancing the quality and stability of the political community, which is government's concern.[22]

Most of us may also agree that governments *should* intervene when necessary to protect children from serious abuse by their parents. However, does that not contradict what was just said? No. Internal to the life and responsibilities of the political community is government's obligation to protect the lives of all citizens. Children as well as parents are citizens. Government is obligated to protect children as well as adults from serious abuse or neglect whether at the hands of parents or of someone else. Therefore, government's exercise of its public responsibility is not an interference in responsibilities that belong to the family but an exercise of its own responsibility. Parents or guardians do not have a right to endanger the life of their children. By the same token, government does not have the right to exercise paternal and maternal authority. This clear differentiation of responsibilities takes into account that the same human persons function in, and bear responsibility for, different kinds of relationships and institutions simultaneously. I am at one and the same time a father, a son, a citizen, and an employee of an organization. Family and political community involve the same people but in different kinds of institutions with different kinds of responsibilities.

Education

Next, consider education. Educating the young is obviously a responsibility that parents or guardians exercise in their homes. Family learning occurs even if it is not pursued with systematic intention or rigor. Children grow up learning the language(s) of their parents. They learn to eat, tie their shoes, do chores, get along with siblings and playmates, and much more. This is one of the important reasons why government should protect the freedom of families to exercise their distinctive responsibilities. Yet, parents do not typically provide all that is necessary and possible for the education of young people. Schools have also developed over the centuries to contribute to the education of children and adults. In some respects, formal schooling continues the work parents do; in other respects, schools go beyond the learning done at home. Moreover, although parents teach their children all kinds of things, families do not exist chiefly for an educational purpose. Families are not schools. The family represents a broader, deeper, and more enduring kind of bond. Schools teach students, but they cannot and should not try to displace families. These are two distinct institutions with different reasons to exist, yet they are closely intertwined in their involvement with the same young people.

Where does the political community find its proper place in education? Governments have a legitimate interest in the education of citizens. If citizens do not gain some systematically organized education, they will likely be at a great disadvantage in the civic community and will be less competent to fulfill civic and other responsibilities. Moreover, if the lack of education also leads to unemployment and the inability of people to care for themselves, then the economic, public-health, and criminal consequences can be detrimental to those involved and very burdensome for society. Governments, therefore, have a legitimate, society-wide, public-justice reason to encourage and even require some level of education for all citizens.[23]

How should all of these responsibilities be coordinated for the educational well-being of persons who are simultaneously children, students, and citizens? The answer begins with a clear recognition that *children* in families are the same persons who are *students* in schools and *citizens* in the political community. Yet, those three different institutions bear three distinct kinds of responsibility. Consequently, government is not justified to think only about its interest in the education of citizens when it acts. It is not the first, or the chief, or the only educator in society. Instead, government should first ask how to do justice to the diverse educational responsibilities of families and schools. In taking action in the public interest, government should be careful not to undermine or get in the way of families and schools but should protect and uphold them for the fulfillment of their own obligations.

A just way for government to act in the public interest, I would argue, is to require the education of every citizen up to a certain level of achievement and through taxation to fund that schooling (whether wholly or in part) at an equitable level for every student. Government's actions on education have to flow from its overarching responsibility to uphold justice for all citizens in the political community, but that responsibility, as we have said, is closely intertwined with doing justice to the responsibilities of other institutions and organizations such as families and schools. Public justice can be done, therefore, both by supporting the independent responsibilities of the other parties and by acting to meet the educational needs of the political community itself by assuring fair and equitable provisioning of all citizens.

On that basis, parents should be free, without legal or financial discrimination, to choose the schools to which they want to send their children, and government should, with appropriately qualified public-justice regulations, recognize the variety of schools and school systems that offer education to the students who choose to enter them.[24] It is unjust for government to monopolize schooling or to direct all tax-collected education dollars to government-run schools. Government is no more the educator-in-chief of society than it is the entrepreneur-in-chief of economic life or the parent-in-chief of children. Each student should be supported equitably for the schooling that parents or guardians choose for their children. This demands equal public treatment of all schools without regard to their religious, philosophical, or organizational differences. Government's legitimate interest in equal treatment, equal opportunity, and education for citizenship can be mandated for every school by various means, many of which are now embodied in laws that regulate independent schools.

Business and Finance

The independence of businesses as well as their interdependence with families, schools, and the political community are also crucial for a flourishing and just society. At this juncture in national and global economic crises, let us focus here on banking and finance to illustrate.

Insofar as banks and other financial companies are business enterprises, government should recognize and protect their independence in keeping with their chartered purposes, market disciplines, and the protection of the independence of other businesses and nonprofit organizations. This means, among other things, that financial companies, including banks, should be allowed to succeed or fail as private enterprises, putting their own capital at risk with the full knowledge of those who invest in, work in, or sell to them.

As we know, however, banking and financial organizations represent a peculiar type of business that is tied closely to the monetary responsibilities of government on behalf of the entire public.[25] We know this from the long history of government reactions to financial booms and busts, leading for example to the establishment of the U.S. Federal Reserve system, to the passage (and then the rescinding) of the Glass-Steagall law that separated commercial from investment banking, and to government's guarantee of bank deposits by individual customers through the FDIC (Federal Deposit Insurance Corporation). It is clear that these and many other decisions by the U.S. government over the last century, whether applauded or denounced, have aimed to protect the public from financial crises and instability and/or to give financiers more flexibility in their investment decisions so economic growth could occur more quickly.

Until a few decades ago, money served primarily as a means to the end of the "real" economy's aims. The so-called real economy, or main street, consisted primarily of the work of all productive and commercial companies and nonfinancial service companies. Savings, credit, and other financial services provided by banks and private investors greased the skids for the real economy. In the last few decades, however, finance has become more of an industry with its own ends—to make money by leveraging money.[26] In recent years, there has been a growing concentration of power in that industry. Toward the end of 2009, when the Great Recession appeared to be ending, that concentration was even greater than before. This could not have happened without government's cooperation and compliance.

In recent decades, the American government has become deeply involved, for example, in backing home mortgages and making room for the derivatives-leveraging game tied to those mortgages. This in large part is what led to the financial crisis that began to show itself as early as 2007. When mortgage lending began, a private residence purchased with a mortgage was the solid asset that secured the loan. Banks and mortgage companies eventually found ways to sell the mortgages to make additional money on derivatives tied to those loans. More and more mortgages, which were sliced and diced into new financial products, were leveraged multiple times until the underlying value of the house became an ever-smaller percentage of all the financial promises leveraged against it. When the upward spiral of home prices crashed against reality, the huge pile of paper debt collapsed or came close to collapsing. By that time, the interdependence of banks, mortgage companies, hedge funds, derivatives gamblers, insurance companies, and the government's obligations to banks and mortgage companies were such that the entire financial system faced collapse. The government had both encouraged and allowed itself to be drawn into this finance-leveraging system to a dangerous degree. When the Federal Reserve and the U.S. Treasury then acted to try to stave off a depression, they had to bail out or take over some of the very companies that had created or contributed to the crisis, including the two huge semipublic and semiprivate mortgage companies, Fannie Mae and Freddie Mac. Trying now to get out of that dilemma, "so it will never happen again," is the challenge facing central banks and governments around the world at the end of 2009.

Dirk Bezemer, a European research economist, contends that governments must stop encouraging (and backing) the efforts of financial companies to make profits on the basis of ever greater leveraging, which, when the bust comes, means bigger and bigger piles of debt for government and taxpayers (many not yet born) to deal with. The long-term aim of financial reform, says Bezemer, should be "to redirect lending away from bloating the financial sector and towards supporting the real economy, rather than loading [the real economy] down with debt."[27] The degree to which financing has shifted away from investment in the real economy to lending against rising asset prices in order to secure short-term financial gains has been astounding, says Bezemer.

> In the 1980–2007 era of cheap credit and deregulation, banks had every incentive to move from real-economy projects, yielding a profit, towards lending against rising asset prices, yielding a capital gain.… The share of lending by U.S. banks to the U.S. financial sector—instead of to the real economy—went from 60 percent of the outstanding loan stock in 1980 to more than 80 percent in 2007. However, the price was growing indebtedness.

It was not just private indebtedness that grew but public debt as well.

The struggles now taking place in Washington, London, and other major capitals, over reform of the financial sector reflect the age-old tensions between trying to protect the economy from financial bubbles and collapses, on the one hand, and trying to spur on economic growth by giving plenty of leeway to private financial (and other business) creativity, on the other. While the reforms may have to be complex, there are a few things that seem obvious about what needs to be done from the viewpoint of a "responsibilities economy" and public justice.

First, to the extent that government and the Fed continue to think of themselves in a liberal way as partners with business and finance in the same project of pushing finance-led economic growth (with tax and other policies actively encouraging indebtedness and leveraging), then government itself will continue to contribute to the gambling excesses of private companies, which have become "too big to fail." Government itself thereby becomes the biggest risk taker and fails to uphold the public trust through just governance. The government of a political community should pursue justice for the common good rather than gamble with borrowed money on the hope of future growth. Private enterprises, which are organized to take risks in pursuit of economic goals, should be subject to the disciplines of the market (meaning they should never be regarded as too big to fail). Consequently, the confusion of political and economic identities must be overcome by constructive public-legal reforms.

If, instead, the large financial organizations "are allowed to maintain their size and oligopolistic structure," writes Michael Rossman, "the state (and that means taxpayers) are the ultimate backers of the business model—the business model that privatizes profits and socializes losses."[28] "To put it bluntly," writes Martin Wolf, "the banking system has been gaming the taxpayer on an intolerable scale."[29] This kind of collusion, which in the economic arena is called rent seeking, "is found whenever economic power is concentrated—in the state, in large private business, in groups of co-operating and colluding firms," says Kay.[30] Kay, however, doubts whether the United States and the United Kingdom will establish clear enough boundaries between government and financial corporations in order for the government to be able to protect the public and to overcome the concentration of power in a few dominant banking conglomerates.

Interestingly, the concentration of economic power and its accompanying rent seeking is something that Adam Smith strongly opposed. As Jerry Evensky explains, Smith saw very clearly that thanks to concentrated control over capital in their relatively few hands, masters can collude, can sustain themselves in labor disputes much more easily than their workers, and can mobilize political influence to their benefit.[31] Smith had hoped and expected that with the "progress of opulence" the concentration of capital, which he associated with the old mercantile system, would be overcome. "By 1848, however, seventy-two years after the publication of *The Wealth of Nations*, the year Marx and Engels published their *Communist Manifesto* and the year John Stuart Mill published his *Principles of Political Economy*," writes Evensky, "Smith's sanguine hope had not been realized. Quite to the contrary, the quandary of capital seemed to be endemic to the liberal free market system and a potentially fatal flaw."[32]

The second thing to point out about our current predicament is that insofar as the public needs banks that serve as safe and dependable public utilities, banks chartered for that purpose—to take deposits, make loans backed by adequate capital reserves and assets, and so forth—should either be highly regulated to protect the public or taken over by government to serve as public utilities. At the same time, insofar as there is a need for investment companies, hedge funds, and various kinds of foreign exchange and derivatives traders to serve private industry, then those financial companies (or arms of financial companies) should be chartered and regulated to assure that they live or die according to market disciplines in ways that do not jeopardize the entire public order. John Kay, Nouriel Roubini, and others argue that to enforce the distinction just made governments should reestablish something like the Glass-Steagall law to separate retail commercial banking (utilities) from investment banking (casinos). "The best way to safeguard the real economy while protecting the public purse," Kay says, is to make sure that "essential financial services to individuals and businesses are regulated but to refuse to underwrite risk-taking."[33]

Martin Wolf, George Soros, and U.S. Treasury Secretary Timothy Geitner, among others, believe that something like the distinction just identified can be achieved by greater regulation of the financial institutions that are now "too big to fail" rather than by trying to reinstate a Glass-Steagall law. Soros, for example, says that some big companies may need to be broken up, but, for many, the public's protection can be achieved by requiring companies to use less leverage, treat money from depositors differently than money from investors, raise the risk rating of securities held by banks, and other tough standards.[34] John Gapper suggests that a three-way (or possibly four-way) split should be established in law among "utilities, casinos and people who visit casinos to gamble. That means retail banks, investment banks and asset managers, including private equity and hedge funds."[35]

Commentator Clive Crook is concerned that finance-reform efforts still being crafted in the United States (early in 2010) are ignoring the primary requirement of devising new rules for banks and other financial companies. Congress and the executive, he says, are mostly fighting over who will get what kind of regulatory control.[36] The reason for this, I would argue, is that the federal government and financial institutions continue to think of themselves too much as partners in a common project of trying to promote economic growth by every means possible. Many members of Congress, the Fed, and the executive branch think of themselves as national executives of finance, and many finance company leaders see themselves as public servants who make possible higher, quicker, short-term profits for the American public. The two sides are fighting over control of the company—America, Inc. This will not do.

For the sake of a just political community that supports a "responsibilities economy" government should revise laws to clarify the independent responsibilities of financial companies, which should not have an ability to cripple the political community. For Bezemer this means, at the very least, that banks "need a regulatory and policy climate that discourages the pursuit of capital gains for their own sake, and which favors growth of the real economy. Finance should be the economy's handmaiden, not the other way around."[37] Crook insists that the United States must turn away from debt-enticing efforts intended to promote the kind of prosperity that contributed to the great collapse and huge losses for ordinary citizens that will continue for an extended period of time.[38] "Too many US households and financial institutions got too deeply in debt," Crook continues. "And it just so happens that debt in general, and housing-related debt in particular, attracts enormous implicit subsidy, especially in the US.… Yet so far as I am aware, Capitol Hill is giving no serious consideration to leveling the tax treatment of debt finance relative to equity finance."[39]

The point here is much the same as the points made above about family life and education. Human beings bear different kinds of responsibilities, including that of organizing political communities whose governments should seek to maintain a healthy and balanced protection of society and the just ordering of public life for the common good. Financial institutions, given their own peculiarity, should, like other kinds of businesses, be recognized in their proper role just as families, schools, and other organized occupations should be recognized in theirs. Furthermore, that requires just laws to protect the commonwealth from dangers arising from business and other nongovernment institutions.

Conclusion

In sum, the political community should be constituted to recognize and protect the full range of human responsibilities and thus to play its part in upholding a responsibilities economy. On the one hand, if a government discounts or tries to take over any of the nongovernment responsibilities, it will do injustice to them and to the entire society.[40] On the other hand, and at the same time, the political community should be structured with the recognition that government bears responsibility to uphold public justice for the common good. That is its internal responsibility in keeping with the political community's own reason for being. Government should not aim simply to promote economic growth or allow itself to be captured by business corporations or by other nonpolitical organizations that want to use it to advance their own interests at the expense of others and to the detriment of the public trust itself. Doing justice to the exercise of human responsibilities intertwined in complex, differentiated societies requires a strong political community—a community with its own purpose and a government that serves that distinctive purpose.

Notes

1. Liberals of various stripes may try to show why and how individuals generate a commitment to civic life and to the laws that govern the commons. By and large, those arguments are either about the way economic life forces self-interested individuals to seek mutual protection or about the great nobility of a few leaders who rise above typical self-interest to give themselves to the cause of the nation. Jerry Evensky quotes contemporary public-choice economist James Buchanan, for example, as saying that some ethical precepts that transcend mere rational self-interest may be needed to motivate individuals to an "ethic of constitutional citizenship." However, in Buchanan's world of "methodological individualism, utility maximization, and

rational choice, where does this commitment to a civic ethic come from? Buchanan's answer: There are 'economic origins of the ethical constraints.'" See Jerry Evensky, *Adam Smith's Moral Philosophy: A Historical and Contemporary Perspective on Markets, Law, Ethics, and Culture* (Cambridge: Cambridge University Press, 2005), 271.

2. Christopher Caldwell, "The Travesty of the Commons," *Financial Times*, October 17, 2009.

3. Quoted in Ian Parker, "The Bright Side: The Relentless Optimism of Thomas Friedman," *The New Yorker*, November 10, 2008, 61.

4. John Kay, "Obama Is Right to Put Pragmatism at the Core of Politics," *Financial Times*, November 19, 2008.

5. Duncan K. Foley, *Adam's Fallacy: A Guide to Economic Theology* (Cambridge: Harvard University Press, Belknap Press, 2006).

6. Amartya Sen, writing in 2009 on the global economic crisis and capitalism's future, comments that Adam Smith "viewed markets and capital as doing good work within their own sphere, but first, they required support from other institutions—including public services such as schools—and values other than pure profit seeking, and second, they needed restraint and correction by still other institutions—for example, well-devised financial regulations and state assistance to the poor—for preventing instability, inequity, and injustice." See Amartya Sen, "Capitalism Beyond the Crisis," *The New York Review of Books*, March 26, 2009, 28.

7. Foley, *Adam's Fallacy*, 2–3.

8. Quoted by Daniel Dombey and Bernard Simon in "Bush Bails Out Detroit with $17bn Package," *Financial Times*, December 20, 2008.

9. Sebastian Mallaby, "Capitalism: The Remix," *The Washington Post*, December 4, 2008.

10. Mallaby, "Capitalism: The Remix." Robert J. Shiller says that the U.S. economy "is not a shining example of pure unfettered market forces. It never has been.… From the outset, [George] Washington envisioned some government involvement in the commercial system, even as he recognized that commerce should belong to the people." See Robert J. Shiller, "Everybody Calm Down. A Government Hand in the Economy Is as Old as the Republic," *The Washington Post*, September 28, 2008. Shiller also emphasizes another dimension of government's involvement in economic life beside social safety nets. From early on, the Americans developed a system "in which the government involved itself in the economy primarily to develop what we would now call infrastructure—highways, canals, railroads—but otherwise let economic liberty prevail. I prefer to call this spectacularly successful arrangement 'financial democracy'—a largely free system in which the U.S. government's

role is to help citizens achieve their best potential, using all the economic weapons that our financial arsenal can provide." The federal government's bailout of the banks in the crisis of 2007 and following, says Shiller, "is entirely in keeping with our basic principles—as long as the bailout promotes, rather than hinders, financial democracy." What seems clear for both Shiller and Friedman is that the primary object is economic freedom and growth; government's job is to support that system whether by providing infrastructure, social safety nets, or bank bailouts. Closer to the libertarian end of liberalism, however, the views of Shiller and Friedman are seen as a threat to truly free markets. See, for example, Gary Becker and Kevin Murphy, "Do Not Let the 'Cure' Destroy Capitalism," *Financial Times*, March 20, 2009.

11. John Plender, "Wisdom for a Punch-Drunk Wall Street," *Financial Times*, August 31, 2009.

12. For a recent evaluation of the rise of finance in modern economies, see Niall Ferguson, *The Ascent of Money* (New York: Penguin Press, 2008), esp. 119–229, 282–344.

13. A book that delves into early American political economy illustrates this point: Stewart Davenport, *Friends of Unrighteous Mammon* (Chicago: University of Chicago Press, 2008). American Christians from 1815–1860, says Davenport, were by and large free-market enthusiasts who wanted to draw a line between legitimate self-interest and excessive greediness on the part of the individual. Their preoccupation was with individual moral responsibility, with personal virtue. Only a few questioned the system as a whole. Most overlooked the institutional and constitutional questions of justice and injustice. There was hardly an awareness of the republic as a political community with an identity different from a market. For a helpful review of Davenport's book, see George Marsden, "Stewards of Capitalism," *Books and Culture*, November/December 2008, 11–13. Morton J. Horwitz elaborates on the legal developments underlying the attitudes just noted: "The insistence on a separation between law and morality emphasized by Nathan Dane and most later [legal] treatise writers appears together with regular warnings of the dangers of using law for redistributive purposes. The attack on equitable doctrines of substantive justice in contract law was one example of this insistence on a rigid separation between law and morality. Since only the market could supply 'neutral' principals (sic) of distribution free from all 'political' (that is, dangerously equalitarian) influences, it became the task of the law to create legal doctrines that simply mirrored the market. Most of the basic dichotomies in legal thought of the nineteenth century—between law and politics, law and morality, objective and subjective standards, distributional and allocational goals—arose to establish the objective nature of the market and to neutralize and hence defuse the political and redistributional potential of law." See Morton J. Horwitz, *The Transformation of American Law, 1780–1860* (Cambridge: Harvard University Press, 1977), 256.

14. This ingrained idea of government positioned over against the people has its roots in the British system, which reaches far back into the Middle Ages. At the time of the American founding, and as can be seen in Adam Smith, there was still not much of a sense of a "political community" of citizens and government but rather of the people over against "the sovereign." The people were *subject* to the government, which served the sovereign or commonwealth, represented by the crown. See Adam Smith, *The Wealth of Nations*, particularly book 5. Even though the Americans decided to identify the people rather than the crown as the sovereign, the fear of what a central government might do, even if established by the people, was still highly charged.

15. Theodore J. Lowi, *The End of Liberalism: The Second Republic of the United States*, 2d ed. (New York: W. W. Norton, 1979). For more on the interest-group reduction of government to a brokerage system among competing interests leading to regulatory capture, see Robert G. Kaiser, *So Damn Much Money: The Triumph of Lobbying and the Corrosion of American Government* (New York: Knopf, 2009). Reports of past and continuing influence of the financial industry and other corporate interests on government's laws and policies are too numerous to mention. The structural problem of the federal system is well illustrated from developments in the second half of the nineteenth century by Richard Franklin Bensel, *Yankee Leviathan: Origins of Central State Authority in America, 1859–1877* (Cambridge: Cambridge University Press, 1950). See also James W. Skillen, *In Pursuit of Justice* (Lanham, Md.: Rowman and Littlefield, 2004), chap. 8.

16. John Kay, *Culture and Prosperity* (New York: HarperBusiness, 2004), 250–51.

17. Simon Johnson, "The Quiet Coup," *The Atlantic*, May 2009, 49. Edward Luce reported in the spring of 2009 that "the top 25 US originators of subprime mortgages—the risky assets that sparked the global financial crisis—spent almost $370m in Washington over the past decade on lobbying and campaign donations as they tried to ward off tighter regulation of their industry, an investigation has shown.… The banks, which have received the vast bulk of the $700bn in troubled asset relief funds issued since last October, also supported the lobbying effort to prevent tighter regulation of the subprime market." See Robert Luce, "Subprime Groups Spent $370m to Fight Regulation," *Financial Times*, May 6, 2009. Matthew Richardson and Nouriel Roubini complain that the response of many governments, especially the United States, to the financial crisis "has been to give the structure of private profit-taking an ever-growing scaffolding of socialised risk. Trillions of dollars have been thrown at the system, just so that we can avoid the natural process of creative destruction that would take down these institutions' creditors. Why shouldn't the creditors bear the losses?" See Matthew Richardson and Nouriel Roubini, "Insolvent Banks Should Feel Market Discipline," *Financial Times*, May 7, 2009.

18. Johnson, "The Quiet Coup," 50. Although Johnson does more than many critics to show the interest-group influences on policy and government's weak attention to

the public trust in the years leading up to the finance-led crisis, he is not alone in pointing to the faults of a system in which Congress and the executive function as a reflex of the economy, encouraging privately led economic growth as the means of producing public goods. The tone of many critical reactions, after the downfall, can be heard in the titles of a few columns that appeared in the *Financial Times*: Richard Layard, "Now Is the Time for a Less Selfish Capitalism," March 12, 2009; Phillip Blond, "Let Us Put Markets to the Service of the Good Society," April 14, 2009; Trevor Manuel, "Let Fairness Triumph Over Corporate Profit," March 17, 2009. Avinash Persaud, speaking for the Warwick Commission on International Financial Reform, said that "while other expert groups tiptoe around it, we have been able to point to the true source of the worst financial crisis since the 1930s: regulatory capture and boomtime politics." See Avinash Persaud, "Boomtime Politicians Will Never Rein in the Bankers," *Financial Times*, November 27, 2009.

19. Kent Greenfield, *The Failure of Corporate Law* (Chicago: University of Chicago Press, 2006), 77.

20. Greenfield, *Failure of Corporate Law*, 79.

21. For an expansion of this thesis see James W. Skillen, "The Common Good as Political Norm," in *In Search of the Common Good*, ed. Patrick D. Miller and Dennis P. McCann (New York: T&T Clark, 2005), 256–78.

22. Clive Crook cites a Brookings Institution study by Isabel Sawhill and Ron Haskins titled *Creating an Opportunity Society* in which the authors emphasize the importance of public support and encouragement of families not only for their own benefit but also for the public good. "The book confirms a finding well established in the literature," writes Crook, "that transition to the middle class is all but guaranteed for poor children if they do three things: finish high school, work full time and marry before having children. The US underperforms as an opportunity society because so many of its young people fail at one or more." See Clive Crook, "The American Dream Needs Repair," *Financial Times*, November 16, 2009. I am not suggesting by means of this reference that government can do what only families and schools can do to raise children and guide them to success in these three responsibilities. Thus, public policy can either encourage or hinder such responsibilities.

23. Amartya Sen comments on the "shared communal benefits" of education because they "transcend the gains of the person being educated" and "may have a public-good component as well.… The persons receiving education do, of course, benefit from it, but in addition a general expansion of education and literacy in a region can facilitate social change … and also help to enhance economic progress from which others too benefit. The effective reach of these services may require cooperative activities and provisioning by the state or the local authorities. Indeed, the state has typically played a major role in the expansion of basic education across the world."

See Amartya Sen, *Development as Freedom* (New York: Random House, Anchor Books, 1999), 128–29.

24. A more detailed argument for pluralism as a matter of principle in education policy (and in public welfare policy) can be found in James W. Skillen, *In Pursuit of Justice: Christian-Democratic Explorations* (Lanham, Md.: Rowman and Littlefield, 2004), chaps. 4 and 6. See also Charles L. Glenn, *The Ambiguous Embrace: Government and Faith-Based Schools and Social Agencies* (Princeton: Princeton University Press, 2000); and Rockne M. McCarthy, James W. Skillen, and William A. Harper, *Disestablishment a Second Time: Genuine Pluralism for American Schools* (Grand Rapids: Eerdmans, 1982).

25. For example, as Samuel Brittan points out, "there is widespread agreement that the damage done in a recession associated with a financial crisis tends to be twice as severe as one that is not. More important is the finding that much of the loss of output in a severe recession is permanent and that the economy never gets back to its old trend line." See Samuel Brittan, "Goodbye to the Pre-Crisis Trend Line," *Financial Times*, October 30, 2009.

26. The complexity of finance today is staggering. One example can serve to illustrate the point. Niall Ferguson writes that in 1990 "there were just over 600 hedge funds managing some $39 billion in assets. By 2000 there were 3,873 funds with $490 billion in assets. The latest figures (for the first quarter of 2008) put the total at 7,601 funds with $1.9 trillion in assets." See Niall Ferguson, *The Ascent of Money*, 329. Hedging started out as a form of futures contracting to secure, for example, a farmer's crop from potential losses when it would go to market after the harvest. A futures investor who agreed to guarantee the farmer a certain price at harvest time was betting on a higher market price than the one stipulated in the contract so he could make a profit when the commodity sold. If the commodity sold at a price lower than the one agreed to, it would mean a loss for the investor but a win for the farmer. From a commodity-based beginning, hedging opened up to a market in the hedge contracts themselves. Now the federal government's farm policies are also deeply involved in leveraging the hedging game.

27. Dirk Bezemer, "Lending Must Support the Real Economy," *Financial Times*, November 5, 2009.

28. Michael Rossman, "Too Big to Fail Arguments Hark Back to Gosplan," *Financial Times* (Letters), November 6, 2009.

29. Martin Wolf, "Victory in the Cold War Was a Start as Well as an Ending," *Financial Times*, November 11, 2009.

30. John Kay, "Powerful Interests Are Trying to Control the Market," *Financial Times*, November 11, 2009.

31. Evensky, *Adam Smith's Moral Philosophy*, 290.

32. Evensky, *Adam Smith's Moral Philosophy*, 291.

33. John Kay, "'Too Big to Fail' Is Too Dumb to Keep," *Financial Times*, October 28, 2009.

34. George Soros, "Do Not Ignore the Need for Financial Reform," *Financial Times*, October 26, 2009.

35. John Gapper, "A Three-Way Split Is the Most Logical," *Financial Times*, October 29, 2009.

36. Clive Crook, "Congress Misses the Point of Reform," *Financial Times*, November 2, 2009.

37. Bezemer, "Lending Must Support the Real Economy." "The crucial challenge now," writes Nouriel Roubini, "is to design a better system of regulation for banks and financial institutions. There is no doubt that the previous model has failed miserably. What we need is much stricter and simpler regulatory rules. Leverage should be much lower, capital and liquidity buffers considerably higher and capital requirement more counter-cyclical." See Nouriel Roubini, "'Comment' on the Future of Finance," *Financial Times*, November 2, 2009.

38. Sarah O'Connor points beyond immediate unemployment numbers and huge losses of paper wealth to the possibility of a lost generation following the crisis that began in 2008. Many young people graduating from college today can find no jobs, and they walk away with large educational debts. "If you look at the effect of youth unemployment, it scars people. A spell of unemployment when you're 20 continues to hurt you when you're 40," David Blanchflower tells O'Connor. Blanchflower is a labor economist in England. "Experts are particularly worried," O'Connor adds, "because this generation is enormous: they are the children of the baby-boomers, born between 1980 and the early 1990s.… Research suggests that graduating during a period of high joblessness depresses initial wages by 6 percent for each percentage point rise in the unemployment rate … and the effect lasts decades." See Sarah O'Connor, "Concerns Grow for New Lost Generation," *Financial Times*, November 25, 2009.

39. Crook, "Congress Misses the Point of Reform."

40. For background on this point see Michael Walzer, *Spheres of Justice: A Defense of Pluralism and Equality* (New York: Basic Books, 1983); William A. Galston, *Liberal Pluralism* (Cambridge: Cambridge University Press, 2002); and James W. Skillen, *Recharging the American Experiment: Principled Pluralism for Genuine Civic Community* (Grand Rapids: Baker Books, 1994), pt. 2, "Rights, Responsibilities, and Jurisdictions," 61–109.