

# Nebraska Council

ON ECONOMIC EDUCATION

## THE MORAL HEART OF CAPITALISM

You Can't Make Money Without It

[Editor's note: Michael Novak opened a panel discussion on corporate responsibility at a Presidential Economic Forum with the following remarks, which are published with his permission.]

My father-in-law, who was a lawyer in a small town in Iowa, would have been one of the most surprised men in America if he were turning on his television set this morning and saw that a room full of accomplished practical people like all of you would want to hear anything from a metaphysician. When I was dating his daughter, I was a graduate student in the history and philosophy of religion at Harvard — and he wasn't sure that was going to

produce a decent living. He used to refer to me as "my son-in-law, the celestial physicist." He would tell me once a year, "Michael, if you can't do it, teach it."

Well, if you can all stand a little metaphysics, I'll do my best to set out the context for our panel, in four brief steps. The first point is that, of all the important panels today, ours is the most crucial. The reason is simple: The business corporation is the strategically central institution of social justice. If the business corporation fails to meet its moral responsibilities, the odds against the rest of society doing so shrink to next to zero. Take one obvious

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Michael Novak is a Resident Scholar and the Director of Social and Political Studies at the American Enterprise Institute. He is an accomplished theologian, prolific author, former U.S. Ambassador and successful professor. He has written 25 influential books, including *The Spirit of Democratic Capitalism*. His writings have appeared in every Western language, and he has won numerous prestigious awards for his work. His essays and reviews have been published in a variety of leading publications, including *The New Republic*, *The Atlantic*, *The New York Times Magazine*, *National Review*, *The Yale Law Review* and others. He has degrees from Stonehill College, the Gregorian University and Harvard, and he has received 23 honorary degrees. Like Aleksandr Solzhenitsyn and Mother Teresa, Novak has won the Templeton Prize for Progress in Religion.



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example: the business corporation is strategically central to the creation of new wealth — and new industries — and new jobs; no other institution even comes close. The workers of a corporation depend on its success for their jobs, their career opportunities, their job training, their pensions, and their health care — even their friendships. When women and men enjoy their work, grow as human beings in it, prosper from it, they are happier in the rest of their lives. On the other side, when corporations go badly, human misery increases. If human conditions at work are poor, the rest of life tends to sour with it. That's why building a good corporation is a noble human calling.

It is a calling heavily weighted with moral obligations. In a set of public opinion polls collected by my colleague Karlyn Bowman at the American Enterprise Institute, the public holds the corporation morally responsible for at least eleven different moral tasks. In one book, I list fourteen moral responsibilities of business, but I didn't finish counting. More impressive: In the matter of corporate responsibility, the stakes are

high: the liberation of the poor through jobs and the creation of new wealth; the success of democracy and human rights [as we learned in Eastern Europe, people are not satisfied with democracy if all it means is voting every two years, while their daily economic condition does not improve]; and the project of building civil society — that network of artistic creativity, good works, and medical research that self-governing citizens choose to initiate by and for themselves. The corporation is the main creator of the wealth that makes the works of civil society achievable.

The poor, democracy and human rights, civil society — these are big issues, and all these important projects have now been injured by corporate scandals. And so my second point: moral scandals in corporate life — especially by corporate leaders — are huge evils. They are trebly evil. One disgusting example was reported: A CEO installed a \$6,000 shower curtain in his private home, allegedly at company expense. If that story is true, that was not only an evil harming one man, his reputation, and his company. It was twice evil because in the same

act he humiliated all the good and decent CEOs in the nation, and dragged them all into ridicule. It was three times evil because his stupidity gave ammunition to the classical enemies of the free economy, at a time when the poor of the world depend on the spreading and the growth of the free economy. In his moral carelessness, he did enormous damage to causes far larger than himself.

The third point to make is far briefer: Corporate responsibility can be backed up by good law, but it cannot be completed by law alone. The law necessarily rides along behind breakthroughs in technology and invention. The law often arrives after the damage has been done, in time to put up some monuments. Between the cutting edge of change and the slow course of the law must come something else: character and conscience. "There are many things which the law permits them to do which the religion of the Americans forbids them to do," the great scholar Alexis de Tocqueville wrote in 1835. Things must be so in a free society, which wishes also to be a decent society. Humans must decide how to use their freedom.

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Conscience has to fill the gap between breakthroughs in technological possibility and the later-arriving decisions of the law. Persons of character know limits; there are things they will not do, no matter what, and no matter what other people are doing. In recent years, too many folk have tried “thinking outside the box,” “breaking out of old paradigms,” “making new rules.”

Well, that might be a good thing to do in technological inquiries. But it’s a fatal mistake in ethics.

For technology may change, but the human need for honesty, trust, and the firm rule never to use other people as means, only as ends, doesn’t change. When the American people can’t trust a company’s financial report, they won’t invest in that company. It’s as simple as that. You may not be able to see “trust,” but it’s as real as a huge loss on the stock market. In the daily life of a capitalist system, things of the spirit — like trust — are more real than money. When they are missing, money itself loses its value. All through America, in every organization, in every institution, we need more attention paid to the human spirit, to the priceless realities, to people whose words, once spoken, can be absolutely relied upon. I have the impression that there were more such persons in our nation’s past. But maybe every generation views the past through rosy lenses.

Whatever the numbers, every republic needs many such people. To endure, a republic needs people whose words are rock-solid, reliable, true — until hell freezes over they will not lie, they will not do the dishonest deed. There are such people in America. People with internal North Stars. People who are not saints, but they almost always do the right thing. They are our Mount Rushmores. Fourth, for too many years, economics textbooks and business schools and the public media have been far better at talking about material things — about the bottom

line — than about character, and trust, and honesty. Besides the ecology of the natural world there is also a moral ecology, a moral environment. For 100 years, we have neglected this whole nation’s moral ecology. We have used up invaluable resources stored up at great cost in the past. We need to rebuild this ecology — this moral ecology — all through society.

This task is done by emphasizing high morals in every realm, through stories of good and evil, and tales of moral heroes and villains. We need to talk about high morals day-in and day-out, encourage one another, rebuke one another. As part of this task, many companies these days have drafted moral codes. “In our company,” they say, “anybody who does x, y, or z will be fired. Employees who follow paths a, b, or c will be supported all the way up to the Board of Directors. If you act ethically in this company, you will not act alone. The whole organization is with you.” Max Weber was partly right, you know, about “the Protestant ethic.” You don’t have to be Protestant to practice it. But there is an ethic that lies behind capitalism, and in the real world it has to be practiced. The system simply will not work without it.

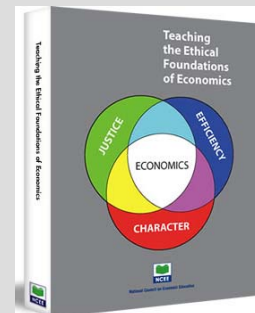
John Stuart Mill and all the classical economists held that economics is a branch of ethics. And they were right. The whole system is based upon trust, honesty, and clarity about the facts — no lies, no illusions, no duplicity. Those are destructive agents in the system. Finally, although it is not our panel’s major focus, we must not lose sight of the corporation’s three major responsibilities: to create new wealth; to generate new industries and new jobs; and to inspire new generations who will invest for the future and sacrifice in the present, as well as to nourish workers who have confidence that their business is a noble calling, and that through it they are leading the world into a freer, more prosperous, and more virtuous future. ■

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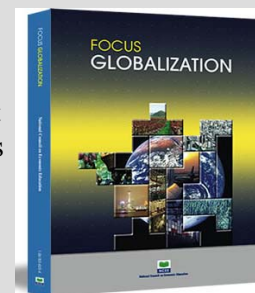
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