Wealthy Nations *Need* Moral Sentiments

Responsibility in a free market economy

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Free nation and free markets

On June 7, 1776, Richard Henry Lee brought a motion before the Second Continental Congress resolving that the Thirteen Colonies were to be free and independent from the British Empire. The motion was seconded by John Adams, and a formal congressional vote was to take place on July 1. In the meantime, a committee was formed to draft an official declaration of independence. Committee members included John Adams, Benjamin Franklin, Roger Sherman, Robert Livingston, and the official writer of the declaration, Thomas Jefferson. On July 2, 12 of the 13 colonies voted in favor of the declaration (New York abstaining) and, on July 4, the Declaration of Independence was adopted. The forming of a new nation, free from British rule, was underway.[1]

Both the colonies' Declaration of Independence and Smith's economic theory asserted that the fundamental human desire for freedom should be maintained in how a society conducts itself governmentally and commercially.

In March of the same year, a book that would become known as *The Wealth of Nations*, was penned by a Scottish economist and moral philosopher named Adam Smith. Smith's book would serve as the foundational blueprint for what many have termed "economic liberalism," and it would shape the economic theory of the young nation across the Atlantic. The core thesis of Smith's theory rested on the notion that free markets led by individuals pursuing their own interests and unadulterated by the control of a central government, are the driving forces that lead to the financial success of wealthy nations.

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Freedom and responsibility

Freedom, however, places an obligation on its partakers if it is to be maintained. As Eleanor Roosevelt reminds us, it has a strong demand:

> *Freedom makes a huge requirement of every human being. With freedom comes responsibility. For the person who is unwilling to grow up, the person who does not want to carry his own weight, this is a frightening prospect.*[2]

The founding fathers were not oblivious to this "frightening prospect" of responsibility. They knew that a system of government founded on the principle of individual freedom required a deeper obligation held by each individual. John Adams, one of the framers of the Constitution, said this about the nature of the government he was helping to form:

> *Our Constitution was made only for a moral and religious people. It is wholly inadequate to the government of any other.*[3]

Likewise, an *a priori* assumption of Adam Smith's theory on free markets, as he explains in *The Wealth of Nations*, was an individual's comprehension of a moral self-interest. Take, for example, his oft-cited quote that "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest."[4] Read in isolation, one might be convinced that Smith is advocating an economy built on selfish pursuits. Smith, however, wrote an entire book dedicated to developing a deeper understanding of what is truly meant by one's "own interest."

In his book titled *The Theory of Moral Sentiments*, published in 1759, Smith writes,

> *No matter how selfish you think a man is, it's obvious that there are some principles in his nature that give him an interest in the welfare of others, and make their happiness necessary to him, even if he gets nothing from it but the pleasure of seeing it.*[5]

As the darker side of America's past shows us, devoid of moral responsibility, free people can use liberty as a license to oppress and even enslave others. Even if, at times, this means living in contradiction with their beliefs. Thomas Jefferson, who wrote the indelible words "All men are created equal" into the Declaration of Independence, was himself a slave owner.

While it may seem unfathomable that we would abuse our freedom in ways that intentionally oppress others, the abuse of freedom often masks itself in a form far more subtle—passivity.

The passive abuse of freedom for profit

While the evil practice of slavery was primarily taking place on plantations in the southern states, the profits from slavery were not isolated to the South. Much of the wealth generated from manufacturers, transporters, and financial institutions in the northern states came from the direct reliance on the cotton produced at the hands of slave labor. While these northern business owners did not actively engage in slave ownership themselves, they used free markets to pursue their "own interests," effectively choosing to ignore any moral culpability in the exploitation of their fellow human brothers and sisters in the South. Banks, for example, had a practice of lending to plantation farmers to expand their enslaved workforce by using enslaved people as collateral for loans. The loans would then be repackaged and purchased by British bondholders overseas.

BBC writer Zoe Thomas explains,

> *Enslaved people were brought to work on the cotton, sugar and tobacco plantations. The crops they grew were sent to Europe or to the northern colonies, to be turned into finished products. Those finished goods were used to fund trips to Africa to obtain more slaves who were then trafficked back to America.*
>
> *This triangular trading route was profitable for investors. To raise the money to start many future plantation owners turned to capital markets in London—selling debt that was used to purchase boats, goods and eventually people.*[6]

Business owners in the northern states, who would later wage war against the South to end slavery, and investors in London, who abolished the slave trade in the 1830s, were passively perpetuating the use of African slaves to produce a generous profit for themselves. And this abusive practice persisted under the distorted guise of "pursuing one's own self-interest."

The responsibility of business

There were 385,000 slave owners in 1860,[7] and the dollar value of the 4 million enslaved people was estimated to be around $3.5 billion in stored capital—more than the estimated value of the entire railroad industry and factories combined.[8] The business of slavery and the businesses that thrived because of it shaped the context of an entire "free" society and helped make America, monetarily, one of the wealthiest nations in the nineteenth century.

Since businesses play such a powerful role in shaping free societies, it is important to ask the question, *Do those operating the businesses have any responsibility to be moral?*

If corporate executives circumvented their responsibility to act ethically because of a greater responsibility to act in the best interest of their owners, the question then becomes, Who were the owners?

Since businesses play such a powerful role in shaping free societies, it is also important to ask the question, Do those operating the businesses have any sort of responsibility to be moral?

In 1970, the *New York Times* published a letter written by American Economist and Nobel Prize Laureate, Milton Friedman, in which Friedman explained the responsibility of a businessperson:

> *In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires.*[9]

On its surface, this sentiment seems to be a fair description of the responsibility of a corporate executive. After all, he or she is an employee of the owners and free to leave and work for another company if he or she so desires. But it begs the questions,

Who are the owners and what are their desires?

To put it in Adam Smith's terms,

Whose "own interest" is a business pursuing and what is that interest?

Friedman answers the latter question with a broad assumption:

> *[A business owner's desires] generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.*[9]

Though he makes the caveat that the owners of hospitals and schools may have more altruistic desires, Friedman's generalization of the desires of most business owners can be dangerously reductionistic if "ethical custom" is interpreted to mean what society allows rather than adhering to an objective set of values. Companies that choose to interpret "ethical custom" to mean the former, can justify their immoral practices so long as they are technically allowed or normalized in society. As Kenneth Barnes points out in his book Redeeming Capitalism, companies at the center of the financial crisis would have been justified under this interpretation:

> *Using Repo 105 to manipulate the balance sheet of Lehman Brothers was technically legal but morally irresponsible. . . . If it was the custom of investment banks to employ high-risk/high-leverage business models and trade in complex derivatives whose underlying assets are either unstable or untraceable or, in the case of CDOs, both, is that ethical? Obviously not, yet according to the precepts of the Friedman doctrine the executives of Lehman Brothers did exactly what was required of them—they were simply trying to "make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."*[10]

If corporate executives circumvented their responsibility to act ethically because of a greater responsibility to act in the best interest of their owners, the question then becomes, Who were the owners? Just like the financiers of the southern plantations, the beneficial owners of the profits generated by Lehman Brothers were investors in the capital markets located all around the world.

The responsibility of investors

Returning to 1776, John Adams and Adam Smith both expressed the necessity for individuals in a free society to have a proper understanding of self-interest, one that is governed by moral responsibility. Within the context of free and open markets, this conception of self-interest is just as needed today as it was then. Owners of businesses—whether sole proprietorships owned by the manager or the investors that own shares of publicly-traded Fortune 500 companies—would do well to understand that their interests are far greater than making as much money as possible.

An inseparable and reciprocal relationship exists between one's own interest and the interest of the broader society. The false notion that one necessarily comes at the expense of the other produces either selfish exploitation of others or a lack of regard for the value of an individual within a community. Smith explains this reciprocal relationship, not where you would expect—in his book on ethics—but rather in his book on economics, *The Wealth of Nations*:

An inseparable and reciprocal relationship exists between one's own interest and the interest of the broader society.

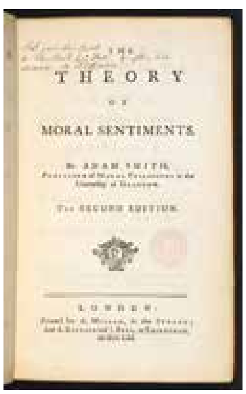
> *Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the*

> *society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society.*[11]

In a world where most businesses do their best to pursue investors' interests, it's incumbent upon conscientious investors to communicate their interests with their words and with how they employ their capital.

In a world where most businesses do their best to pursue investors' interests, it's incumbent upon conscientious investors to communicate their interests with their words and with how they employ their capital. Investors must ask themselves, Is the business I am invested in generating short-term profits by exploiting or extracting value from its customers, employees, suppliers, its host community, the environment, or broader society? If the answer to that question is yes, they may want to ask the alternative question, How might I invest my money so that I am encouraging businesses to generate profits by creating value for those same stakeholders?

Throughout Adam Smith's work, the "advantageous employment of capital" surfaces as an important theme in a free market economy so long as we properly understand what is truly advantageous. The investor's interests are intertwined with the interests of others. And the success of free markets within a free society depends greatly on employing capital for the common good. One can only imagine the headwinds that the practice of slavery would have faced in the early 1800s had businesses and investors understood their best interests more fully and been more responsible with how they employed their capital.



The Theory of Moral Sentiments
by Adam Smith

Conclusion

It is a great privilege to live in a society that holds freedom as a core virtue. But this freedom, as we have seen, necessitates an individual's moral responsibility. The free market economic system places the responsibility on individuals to steward capital in ways that consider the reciprocating interests of individuals and the broader society. Perhaps Jesus' command to "love your neighbor as yourself" is in view here in the sense that loving yourself and loving your neighbor are not mutually exclusive. On the contrary, they reinforce one another.

The prophet Jeremiah in the Old Testament gives a directive to the Israelites as they are exiled in Babylon that again supports this symbiotic relationship:

> *But seek the welfare of the city where I have sent you into exile, and pray to the Lord on its behalf, for in its welfare you will find your welfare. (Jeremiah 29:7 ESV)*

Adam Smith knew that businesses and the investment dollars that fuel them were powerful tools that could be used to enhance the common good. He also knew that if not undergirded by a proper understanding of moral self-interest, they could be used to extract value from society. In order for us to truly employ our capital to our highest advantage—creating an environment where free individuals can pursue life, liberty, and happiness—we must always remember that:

For in [the city's] welfare you will find your welfare.

Wealthy nations need moral sentiments and responsible investors.

[1] "Lee Resolution Presented to Continental Congress," History.com, updated June 5, 2020, accessed July 14, 2020, https://www.history.com/this-day-in-history/lee-resolution -presented-to-continental-congress.

[2] Eleanor Roosevelt, *You Learn by Living: Eleven Keys for a More Fulfilling Life* (Louisville: Westminster John Knox Press, 2009), accessed July 15, 2020, https://www .goodreads.com/quotes/230160-freedom-makes-a-huge-requirement-of-every-human -being-with.

[3] John Adams, "Quotes," John Adams Historical Society, accessed July 14, 2020, http ://www.john-adams-heritage.com/quotes/.

[4] Adam Smith, *The Wealth of Nations* (New York: Random House, 2003), 22.

[5] _____, *The Theory of Moral Sentiments,* accessed July 15, 2020, https://www .earlymoderntexts.com/assets/pdfs/smith1759_1.pdf.

[6] Zoe Thomas, "The Hidden Links between Slavery and Wall Street," BBC.com, August 29, 2019, accessed July 14, 2020, https://www.bbc.com/news/business-49476247.

[7] "Selected Statistics on Slavery in the United States," Weber.edu, accessed July 14, 2020, https://faculty.weber.edu/kmackay/selected_statistics_on_slavery_i.htm.

[8] Ta-Nehisi Coates, "What Cotton Hath Wrought," TheAtlantic.com, July 30,2010, accessed July 14, 2020, https://www.theatlantic.com/personal/archive/2010/07/what-cotton-hath-wrought/60666/.

[9] Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *New York Times*, September 13, 1970.

[10] Kenneth Barnes, *Redeeming Capitalism* (Grand Rapids: Eerdmans, 2018), 10.

[11] Smith, *The Wealth of Nations*, 569.

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