TWENTY-FIVE years ago, the two founding editors of this magazine published important essays on the cultural and moral status of capitalism. Irving Kristol worried that the most intelligent contemporary defenders of capitalism were now mostly libertarians who praised the market because it produced material benefits and enhanced human freedom but who denied that markets had anything to do with morality. Friedrich Hayek, for example, had written that “in a free society it is neither desirable nor practicable that material rewards should be made generally to correspond to what men recognize as merit.” It is not practicable because no one can supply a non-arbitrary definition of merit (or justice); it is not desirable because any attempt to impose such a definition would create a despotism. Kristol worried that people would not support any economic order in which “the will to success and privilege was severed from its moral moorings.”

* The Public Interest, Number 21, Fall 1970.
Capitalism could not survive if, quoting George Fitzhugh, "none but the selfish virtues are in repute" because in such a society "virtue loses all her loveliness" and social order becomes impossible.

In the same issue, Daniel Bell published his famous essay on "The Cultural Contradictions of Capitalism" in which he suggested that the bourgeois culture—rational, pragmatic, and moral—that had created capitalism was now being destroyed by the success of capitalism. As capitalism replaced feudal stagnation with material success, it replaced tradition with materialism; as privation was supplanted by abundance, prudence was displaced by prodigality. Capitalism created both a parvenu class of rich plutocrats and corporate climbers and a counterculture of critical intellectuals and disaffected youth. The latter began to have a field day exposing what they took to be the greed, hypocrisy, and Philistinism of the former.

**Capitalism's great test**

Both Kristol and Bell were amplifying on a theme first developed by Joseph Schumpeter: Contrary to what Marx had taught, capitalism would be destroyed not by its failures but by its successes. Their views did not go unchallenged; a decade later George Gilder, in *Wealth and Poverty*, launched a frontal attack on the Schumpeterian theory (and its development by Kristol and Bell) by arguing that capitalism was, in fact, a highly moral enterprise because it "begins with giving" and requires "faith."

However one judges that debate, it is striking that in 1970—at a time when socialism still had many defenders, when certain American economists (and the CIA!) were suggesting that the Soviet economy was growing faster than the American, when books were being written explaining how Fidel Castro could achieve by the use of "moral incentives" what other nations achieved by employing material ones—Kristol and Bell saw that the great test of capitalism would not be economic but moral. Time has proved them right. Except for a handful of American professors, everyone here and abroad now recognizes that capitalism produces greater material abundance for more people than any other economic system ever invented. The evidence is not in dispute. A series of natural experi-
ments were conducted on a scale that every social scientist must envy: Several nations—China, Germany, Korea, and Vietnam—were sawed in two, and capitalism was installed in one part and “socialism” in the other. In every case, the capitalist part out-produced, by a vast margin, the non-capitalist one.

Moreover, it has become clear during the last half century that democratic regimes only flourish in capitalist societies. Not every nation with something approximating capitalism is democratic, but every nation that is democratic is, to some significant degree, capitalist. (By “capitalist,” I mean that production is chiefly organized on the basis of privately owned enterprises, and exchange takes place primarily through voluntary markets.)

If capitalism is an economic success and the necessary (but not sufficient) precondition for democracy, it only remains vulnerable on cultural and moral grounds. That is, of course, why today’s radical intellectuals have embraced the more extreme forms of multiculturalism and postmodernism. These doctrines are an attack on the hegemony of bourgeois society and the legitimacy of bourgeois values. The attack takes various forms—denying the existence of any foundation for morality, asserting the incommensurability of cultural forms, rejecting the possibility of textual meaning, or elevating the claims of non-Western (or non-white or non-Anglo) traditions. By whatever route it travels, contemporary radicalism ends with a rejection of the moral claims of capitalism: Because morality is meaningless, because capitalism is mere power, or because markets and corporations destroy culture, capitalism is arbitrary, oppressive, or corrupting.

Most critics of capitalism, of course, are not radicals. Liberal critics recognize, as postmodernists pretend not to, that, if you are going to offer a moral criticism of capitalism, you had better believe that moral judgments are possible and can be made persuasive. To liberals, the failure of capitalism lies in its production of unjustifiable inequalities of wealth and its reckless destruction of the natural environment. Capitalism may produce material abundance, the argument goes, but at too high a price in human suffering and social injustice.

I do not deny that capitalism has costs; every human activity has them. (It was a defender of capitalism, after all, who
reminded us that there is no such thing as a free lunch.) For people worried about inequality or environmental degradation, the question is not whether capitalism has consequences but whether its consequences are better or worse than those of some feasible economic alternative. (I stress “feasible” because I tire of hearing critics compare capitalist reality to socialist—or communitarian or cooperative—ideals. When ideals are converted into reality, they tend not to look so ideal.) And, in evaluating consequences, one must reckon up not simply the costs but the costs set against the benefits. In addition, one must count as benefits the tendency of an economic system to produce beliefs and actions that support a prudent concern for mitigating the unreasonable costs of the system.

Capitalism and public policy

By these tests, practical alternatives to capitalism do not seem very appealing. Inequality is a feature of every modern society; Adam Smith expected that it would be a particular feature of what we call capitalism. Indeed, he began The Wealth of Nations by setting forth a puzzle that he hoped to solve. It was this: in “the savage nations of hunters and fishers” (what we later learned to call euphemistically “native cultures” or “less-developed nations”), everyone works and almost everyone acquires the essentials of human sustenance, but they tend to be “so miserably poor” that they are reduced, on occasion, to killing babies and abandoning the elderly and the infirm. Among prosperous nations, by contrast, many people do not work at all and many more live lives of great luxury, yet the general level of prosperity is so high that even the poorest people are better off than the richest person in a primitive society. His book was an effort to explain why “the system of natural liberty” would produce both prosperity and inequality and to defend as tolerable the inequality that was the inevitable (and perhaps necessary) corollary of prosperity.

Smith certainly succeeded in the first task but was less successful in the second, at least to judge by the number of people who believe that inequality can be eliminated without sacrificing prosperity. Many nations have claimed to eliminate market-based inequalities, but they have done so only by creating non-market inequalities—a Soviet nomenklatura, a ruling
military elite, an elaborate black market, or a set of non-cash perks. Between unconstrained market inequality and the lesser inequality achieved by some redistribution, there is much to discuss and decide, and so the welfare-state debate proceeds. Participants in this debate sometimes forget that the only societies in which such a debate can have much meaning are those that have produced wealth that can be redistributed and that have acquired a government that will do so democratically—in short, capitalist societies.

Similarly with respect to the environment: Only rich (that is, capitalist) nations can afford to worry much about the environment, and only democratic (that is, capitalist) nations have governments that will listen to environmentalists. As with inequality, environmental policies in capitalist systems will vary greatly—from the inconsequential through the prudent to the loony—but they will scarcely exist in non-capitalist ones. If anyone doubted this, they were surely convinced when the Iron Curtain was torn down in 1989, giving the West its first real look at what had been hidden behind the Berlin Wall. Eastern Europe had been turned into a vast toxic waste dump. Václav Havel explained why: A government that commands the economy will inevitably command the polity; given a commanding position, a government will distort or destroy the former and corrupt or oppress the latter.

To compel people engaged in production and exchange to internalize all of the costs of production and exchange without destroying production and exchange, one must be able to make proposals to people who do not want to hear such proposals, induce action among people who do not want to act, and monitor performance by people who do not like monitors, and do all of this only to the extent that the gains in human welfare are purchased at acceptable costs. No regime will make this result certain, but only democratic capitalist regimes make it at all possible.

Capitalism creates what are often called “post-material values” that lead some private parties to make environment-protecting proposals. Capitalism, because it requires private property, sustains a distinction between the public and the private sphere and thereby provides a protected place for people to stand who wish to make controversial proposals. And capital-
ism permits (but does not require) the emergence of democratic institutions that can (but may not) respond to such proposals. Or to put it simply: environmental action arises out of the demands of journalists, professors, foundation executives, and private-sector activists who, for the most part, would not exist in a non-capitalist regime.

**Capitalism and the good life**

Many readers may accept the view that capitalism permits, or possibly even facilitates, the making of desirable public policies but reject the idea that this is because there is anything moral about it. At best, it is amoral, a tool for the achievement of human wants that is neither good nor bad. At worst, it is an immoral system that glorifies greed but, by happy accident, occasionally makes possible popular government and pays the bills of some public-interest lobbies that can get on with the business of doing good. Hardly anyone regards it as moral.

People with these views can find much support in *The Wealth of Nations*. They will recall the famous passage in which Smith points out that it is from the “interest,” not the “benevolence,” of the butcher, the brewer, or the baker that we expect our dinner. An “invisible hand” leads him to promote the public good, though this is “no part of his intention.” Should they study the book more carefully, they will come across passages predicting the degradation of the human spirit that is likely to occur from the division of labor, the incessant seeking after monopoly benefits and political privilege that will follow from the expansion of manufacturing, and the “low profligacy and vice” that will attend upon the growth of large cities. The average worker employed in repetitive tasks will become “stupid and ignorant,” the successful merchant living in a big city will become personally licentious and politically advantaged.

Karl Marx, a close student of Smith’s writings, had these passages in mind (and, indeed, referred to them) when he drew his picture of the alienation man would suffer as a consequence of private property and capitalism. But Marx (and, in some careless passages, even Smith) had made an error. They had confused the consequences of modernization (that
is, of industrialization and urbanization) with the consequences of capitalism. The division of labor can be furthered and large industrial enterprises created by statist regimes as well as by free ones; people will flock to cities to seek opportunities conferred by socialist as well as capitalist economies; a profligate and self-serving elite will spring up to seize the benefits supplied by aristocratic or socialist or authoritarian or free-market systems. Show people the road to wealth, status, or power, and they will rush down that road; many will do some rather unattractive things along the way.

Among the feasible systems of political economy, capitalism offers the best possibility for checking some, but not all, of these tendencies toward degradation and depravity. When Smith suggested that the increased division of labor would turn most workers into unhappy copies of Charlie Chaplin in Modern Times, he thought that only public education could provide a remedy. Because he wrote long before the advent of modern technology, he can be forgiven for not having foreseen the tendency of free markets to substitute capital for labor in ways that relieve many workers of precisely those mindlessly repetitive tasks that Smith supposed would destroy the human spirit.

Urbanization is the result of modernity—that is, of the weakening of village ties, the advent of large-scale enterprise, the rise of mass markets, and an improvement in transportation—and modernity may have non-capitalist as well as capitalist sources. Mexico City, Sao Paulo, Rio de Janeiro, and Moscow have long been among the dozen largest cities in the world, but, until quite recently (and still quite uncertainly), none of these was located in a nation that could be fairly described as capitalist. They were state-dominated economies, either socialist or mercantilist, and Smith would have had no use for any of them. And, being non-capitalist, most of these states were barely democratic (the USSR not at all). Lacking either a truly private sector or a truly democratic regime, reformist and meliorist tendencies designed to counteract the adverse consequences of massive urbanization were not much in evidence. Americans who rightly think that high rates of crime are characteristic of big cities, but wrongly suppose that this is especially true of capitalist cities, need to spend some
time in Moscow, Rio, and Mexico City.

Capitalism creates privilege; socialism creates privilege; mercantilism creates privilege; primitivism creates privilege. Men and women everywhere will seek advantage, grasp power, and create hierarchies. But to the extent that a society is capitalist, it is more likely than its alternatives to sustain challenges to privilege. These arise from economic rivals, privately financed voluntary associations, and democratically elected power-holders; they operate through market competition, government regulation, legal action, and moral suasion. But they operate clumsily and imperfectly, and, in the routine aspects of ordinary morality, they may not operate well enough.

**Capitalism and the morality of everyday life**

By this point, I may have persuaded a few readers that a system of rival interests has some beneficial moral effects, at least in comparison to statist economies in which the playing field is tilted by one set of greedy actors having decisive power over another. But nothing I have said is inconsistent with the view that capitalism rests on greed and therefore with the view that, at best, capitalism is amoral.

This was not, I think, the view of either Smith or many of the other earlier defenders of capitalism. In *The Wealth of Nations*, he certainly gives an unflinchingly honest account of how self-interest drives economic decisions. But, as Albert Hirschman has suggested, eighteenth-century thinkers did not divide human motives into reason and interests, they divided them into reason, passions, and interests. Having seen the failures of unaided reason and the perils of unguided passions, they hoped that calm interests would inform reason and temper passion.

This was the argument about the beneficial effects of *doux commerce*—sweet (or gentle) commerce—and it was implicitly taken up by the American Founders when they made their case for a commercial republic. It has been repeated of late by the British anthropologist and philosopher Ernest Gellner who, in reflecting on the failure of European communism, observes that no society can avoid finding a way to channel the desire men have to advance themselves. In traditional and in statist societies, the way to attain wealth is first to attain
power, usually by force. But, in market societies, "production becomes a better path to wealth than domination."

Critics of capitalism argue that wealth confers power, and indeed it does, up to a point. But this is not a decisive criticism unless one supposes, fancifully, that there is some way to arrange human affairs so that the desire for wealth vanishes. The real choice is between becoming wealthy by first acquiring political or military power or by getting money directly without bothering with conquest or domination. Max Weber put it this way: All economic systems rest on greed, but capitalism, because it depends on profit, is the one that disciplines greed.

In the process of imposing that discipline, capitalism contributes to self-discipline. It encourages civility, trust, self-command, and cosmopolitanism by first making these traits useful and then making them habitual.

Smith alluded to this when he observed that "commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals ... who had before lived almost in a continual state of war with their neighbours and of servile dependency upon their superiors." Lest Smith be interpreted as arguing in favor of central government, he makes clear in other places that the beneficial effects of free and orderly commerce operate chiefly on the character of individuals, especially would-be lords and conquerors now converted into merchants. Nor is he, in the passage quoted above, contradicting his account of the baleful effects on ordinary people of an extreme division of labor; capitalism may bring liberty and security, but it also brings temerity, narrowness, and profligacy. To Smith, sweet commerce was sweet-and-sour.

Smith's ambivalence reflected his analysis of the class structure of society. Commerce would create a middle class whose new members would mostly be decent people. "In the middling and inferior stations of life," he wrote, "the road to virtue and that to fortune ... are, happily, very nearly the same." Among people engaged in middle-class occupations, "real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success." In this circumstance, the proverb that "honesty is the best
policy" proves true. But matters are very different in "the superior stations of life," in part, because the rich and well-born live in a self-constructed world of privilege that isolates them from the effective judgment of ordinary (and ordinarily decent) men, and, in part, because merchants and manufacturers will move to cities where they will have countless opportunities to acquire political privileges—monopolies, loopholes, and subsidies—that insulate them from fair market judgments about their products, services, and practices.

Smith's worries, so often quoted, about the affluent few detract, I think, from the much more important impact of capitalism on the not-so-affluent many. An economic system that provides many alternative suppliers for any desired product or service creates an incentive for each supplier to act as if he or she cared about the interests of the customer. Everyone has heard enough stories about surly waiters in Soviet restaurants to acknowledge that communist managers never took customers as seriously as they took commissars, but perhaps this was simply the extreme result of doing business in a pathological society. I doubt that. There has been comparable evidence available in the United States for many years. Until recently, most big airports supplied food to travelers by giving an exclusive franchise to a single vendor. Of late, many airports are giving franchises to several rival vendors—McDonald's, Burger King, Taco Bell, and the like—to offer food competitively in airports. Without question, the quality of food and service has gone up.

A skeptic will rejoin that competition merely requires suppliers to act as if they cared about the customer. But, as any economist will note, a firm's reputation has a capital value (it is sometimes measured on the balance sheet as good will) and so business executives who wish to maximize that value will devote a great deal of effort to inculcating a service ethic in their employees. One cannot do that cynically. "If you can fake sincerity, you've got it made," someone once said. That may be true for a few individuals, but organizing such fakery on a large scale is impossible—the teaching will be unconvincing, and the lesson will be ignored.

But acting as if one cared has more than economic significance. Our characters are formed, as Aristotle observed, by
the process of habituation. Any process that makes a personal disposition habitual is character forming. Parents know this, which is why they teach good manners to their children by means of constant small reminders and an insistence on routine observances. Though I am aware of no evidence bearing on it, there is little reason to suppose that habituation ends with adulthood or cannot occur outside the family. Are young people who have worked for three years at McDonald’s and been taught to parrot learned phrases (“How may I serve you?” “Will that be all?” “Thank you.”) more likely on leaving for better jobs to be civil than are similar youngsters who worked in a company that attached no value to civility? I don’t know, but I think so.

When Smith wrote that the “understandings of the greater part of men are necessarily formed by their ordinary employments,” he was worrying about the harmful effect on the mind of dull and exhausting labor. But the shortened work day and the use of machinery have made this effect much less likely than it was in the eighteenth century. Today, it may be that it is the manners of people that are formed in part by their daily employment.

**Capitalist virtues**

Capitalism requires some measure of trust. In any economic system, buying and selling occurs, but voluntary buying and selling on a large scale among strangers requires confidence in fair dealing that cannot depend on one party having much detailed knowledge about the other. Routinized exchanges present some of the same problems as a “Prisoner’s Dilemma” in which both participants have an incentive to cheat if they assume they will only play the game—or engage in the exchange—once. The solution to the dilemma lies in repeating the game in conformity with this rule: do to the other party what he has just done to you (“tit for tat,” in political scientist Robert Axelrod’s phrase), but make your first move a “nice” one in order to encourage the other party to do the same. In some societies, mainly Western ones, this rule is enforced by contract law; in others, notably Eastern ones, by group affiliations. Capitalism takes advantage of this rule in order to create large, permanent markets among strangers that can oper-
ate without incessant recourse to retribution. In so doing, it strengthens conformity to the premise on which it depends: some minimum level of trust. This is a moralizing activity even though every customer knows that another rule—caveat emptor—also operates.

In a recent paper, John Mueller of the University of Rochester has observed that price haggling—once a common feature of most markets and still characteristic of some—has been abandoned even though it conferred short-term advantages on the seller. (This was true because sellers, knowing more about their wares than customers, had an advantage over most casual shoppers.) But some sellers discovered that, in the long run, they did more business by setting attractive, fixed prices. This practice lowered transaction costs for customers, thereby enlarging the number of customers.¹ Mueller notes that, as early as 1727, businessman-turned-novelist Daniel Defoe argued against haggling because it encouraged both parties to lie. The rise of fixed-price dealing has shifted misrepresentation from price to quality (or at least to advertising about quality).

Another premise on which capitalism depends is self-command. Smith understood that investment was required for capital to be accumulated and that investment, in turn, required that some people be willing to postpone immediate gratification for later (and larger) benefits. Smith did not explain why we should assume that the number of savers will be sufficient to produce the necessary investment. He observed that "prodigality," the result of a "passion for present enjoyment," will diminish the capital available for economic growth, and so it will be necessary for the "frugal man" to save enough to spare the rest of us from the consequences of our own prodigality. But will this occur? Smith predicts that "the profusion or imprudence of some" will be "always more than compensated for by the frugality and good conduct of others." Why? Well,

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¹ Why, then, does price haggling still occur in the sale of automobiles? In part, it is because the purchaser, as well as the dealer, has something to sell. The purchaser usually has a used car to trade in and has little incentive to set a fixed price for it. He bargains over what the trade-in is worth and so the dealer must bargain over what the new car is worth. Even here, however, some dealers are experimenting with fixed-price sales.
the desire to save comes from an innate desire to better our condition. But, since only a few save a lot, the desire must be limited to a few. Will they be too few?

People differ in their degree of self-command but are alike in the high regard in which they hold people who display self-command (provided the display is not excessive, as it is with personalities that are miserly or rigid). Self-command is, in short, regarded (up to a point) as a virtue, one that is essential to capitalism and that capitalism strengthens to the extent that it induces more and more people to think about the future. (Indeed, economic growth requires that people have a concept of a secular future, a notion that may well have been absent or meaningless in feudal Europe.) The recent decline in the rate of American private savings corresponds to a period in which self-indulgence has been conspicuous. I have no idea what to make of this parallel except to suggest that a complete understanding will almost surely require a cultural, as well as economic, analysis. If all that mattered were net yields on savings, the Japanese would not be saving anything. Their banks pay very low interest rates, yet their customers save at world-record rates.

Finally, capitalism contributes to cosmopolitanism. This remark will be laughable to any reader who, when hearing the word "capitalist," conjures up an image of George Babbitt or Henry Ford. Capitalism, having been linked by artists to bourgeois culture, has forever been linked to narrow Philistinism. But, long ago, Gary Becker explained why markets are the enemy of racial or ethnic discrimination. Prejudice is costly: It cuts a supplier off from potential customers and an employer off from potential workers, thus reducing sales and raising factor costs.

Embedded in a thoroughly racist community, capitalism can easily exist side by side with prejudice because there are no competitive disadvantages to acting on the basis of prejudice: Since white workers and customers will not mingle with black workers and customers, all employers are on the same footing. But let a crack develop in the unanimity of racist sentiment; let some workers and some customers become indifferent to the racial identity of their colleagues; let nationwide enterprises discover that some customers dislike racism and will
make their purchasing decisions on that basis; let this happen, and market pressures will swiftly penalize employers who think that they can, without cost, cater to prejudice.

None of this is to deny the important role played by law, court order, and the example of desegregated government agencies. But imagine rapid desegregation occurring if only law, order, and example were operating. It would be slow, uneven, and painful. Public schools desegregated more slowly than hotels and restaurants not only because white parents cared more about who their children went to school with than about who was in the next hotel room or at the next cafe table but also because school authorities lacked any market incentive to admit more or different pupils. Indeed, a statist economy would not only resist desegregation, it would allocate economic benefits—franchises, licenses, credit—precisely on the basis of political, class, ethnic, or racial status.

**Capitalism against slavery**

In a remarkable essay, historian Thomas L. Haskell of Rice University has connected capitalism to the attack on slavery in a bold and new way. The conventional view among historians of the social-control school has been that reform efforts, including the attack on slavery, were intended to further the hegemonic interests of the bourgeoisie. When abolishing slavery was the most rational way to insure the docility of the workers and enhance the legitimacy of the bourgeoisie, slavery was abolished.

This argument is not crudely Marxist; sophisticated control theorists do not necessarily say that businessmen stood to benefit immediately and materially from an end to slavery. They are even prepared to concede that the business classes deceived themselves about what they were doing. But, what they insist upon is that the bourgeoisie could not really have acted out of altruistic motives. And it does seem strange to think that they might have done so. After all, British capitalists were practicing profitable large-scale agriculture in the West Indies. They had many allies, including customers, in London. Then, all of a sudden, slavery was ended after a public debate that rested almost entirely, as far as I can tell, on humanitarian principles. Control theorists suggest that it came about
because the capitalists wanted to enhance their legitimacy by abolishing slave labor so that labor for slave wages would not be suspect. As David Brion Davis put it, the abolitionist movement "helped clear an ideological path for British industrialists" that, by exaggerating the harshness of slavery, "gave sanction to less barbarous modes of social discipline."

Haskell finds this a somewhat tortured argument. Can capitalist opponents of slavery, notably the successful Quaker businessmen of the late eighteenth century, really have thought that their "ideological hegemony" (whatever they thought that might be) would be enhanced by attacking the slave system, and that this was more important to them than what they repeatedly and eloquently said was their motive—namely, the horror they felt toward involuntary servitude?

In place of the social-control theory, Haskell suggests that capitalism supported, and was wholly consistent with, the religious convictions of the Quaker abolitionists. As capitalism spread, it carried with it a universalistic message. An important part was the new, high value attached to keeping promises and the concordant development and enforcement of contract law. As commerce spread, promise keeping and contract writing were increasingly carried on with strangers and foreigners, including Jews, heathens, and Levantines. Capitalism sharpened one's sense of, and commitment to, the future, and it equipped its more skillful practitioners with experience in dealing with contingencies. Successful capitalists learned to deal fairly with distant strangers and thus learned to attach greater importance to individual reliability than to group membership.

Commerce across cultures can be profitable, but it is risky. In coping with the risks, capitalists learned ways of dealing with remote circumstances. They acquired, in Haskell's phrase, "recipes for intervention," or what a social scientist would call a sense of efficacy. By this route, some came to believe that it was possible, as well as desirable, to challenge slavery. Haskell does not argue that capitalism was inherently a moral argument against slavery, only that it was a cultural, as well as economic, movement that contained within its assumptions and practices certain preconditions—beliefs, experiences, recipes—for expanding the humanitarian sensibility to strangers. This
cultural change made possible, in about the length of one man's life, the abolition of a practice supported by custom, profits, argument, and property rights.

Capitalism and bureaucracy

Capitalism is a system of action, but it is also one in which large-scale institutions operate. Like politics, economics creates bureaucracies, and bureaucracies have a logic different from that of either markets or politics. A large enterprise, whether private or public, tends to generate commitments to co-workers and subunits rather than to the enterprise as a whole, to separate employees from the customers or citizens affected by employee actions, and to operate on the basis of standard operating procedures that seem instrumentally rational even when they are substantively irrational. In short, bureaucracy diffuses or displaces the sense of personal responsibility. Firms differ from government agencies in many important respects, but this does not mean that they are free from the vices attendant on large-scale organization. There may be economic returns to scale, but not moral ones.

With all the talk about white-collar crime, we have remarkably little information about what kinds of organizational arrangements stimulate or impede misconduct. Big firms probably are more likely than smaller ones to obey certain laws and regulations because they have a more visible reputation to protect and the financial resources to hire specialists to do the protecting (for example, by discovering and complying with government rules). But big firms may be less inclined to right conduct of a different sort—that is, fair play in the most general sense.

One meaning of fairness is the Golden Rule: Treat customers, workers, and suppliers as you would wish to be treated under the same circumstances. That rule, however, will operate differently when the other party is dealt with at second or third hand, invisibly and impersonally, than when he is confronted personally. Even when we deal with a person face to face, we often find it quite easy to invent rationales for discounting their interests or rejecting their claims: "This guy is (take your pick) different, insincere, or unworthy." But it is much easier to conceive of other people as convenient ab-
stractions when they are known only by labels, words, or numbers, as is likely the case when we are members of a large organization.

Fairness can also be defined as receiving rewards proportional to effort. In face-to-face transactions, effort is the product delivered or the service rendered, and rewards are the cash received or the thanks expressed. In impersonal transactions, effort may be the skill displayed at currying favor from one's superiors and rewards the promotions and preferment that result from successful currying. Bureaucratization not only insulates some parts of a firm from market forces but also isolates them from human forces. Bureaucratization involves specialization that often implies encapsulation, reducing the proportion of workers who deal intimately and regularly with other specialists. (In sociological jargon, there is a decline in boundary-spanning roles.)

Bureaucratization also requires measures of employee achievement that are poor proxies for market success. In a firm, a successful accountant, lawyer, or personnel officer is rarely the one who has increased profits or sales for the enterprise (managers rarely can know whether these people have materially helped or hurt profits); it is the person who has best conformed with higher-level expectations as to how an accountant, lawyer, or personnel officer is supposed to behave (and these may be reasonable, unreasonable, or self-serving expectations).

Robert Jackall, in his book *Moral Mazes*, explores how managers in two large corporations define the rules, and thus implicitly the moral requirements, of their jobs. In both firms, he found struggles for status and dominance, perceived gaps between reward and merit, and a preoccupation with the maintenance of good public relations over sound policy. Managers seeking advancement had to keep their eye out for "the main chance," and that, in turn, meant, among other things, "unremitting attentiveness to the social intricacies of one's organization." The tone of Jackall's book suggests that he is no friend of corporations, but his detailed observations cannot for that reason be ignored.

Corporate executives are aware that they live at a time when great attention is paid to "corporate responsibility" and
“business ethics.” Observers who are well-disposed toward capitalism and suspicious of elite fads may dismiss these preoccupations as mere catering to a hostile media. That would be a mistake. Though much of this talk may be fatuous or superficial, the problem of imbuing large-scale enterprise with a decent moral life is fundamental. Chester Barnard made this clear nearly 60 years ago in *The Functions of the Executive*. However ready people are to comply with the self-regarding demands of a group and conform to the narrow culture of an organization, most people know the difference between doing things they are proud to tell their children about and things they hope their children never find out about.

Serious executives know this and worry about it. The emergence of codes of corporate ethics and the emphasis on fashioning a defensible corporate culture are not, I think, merely public relations (though they are sometimes just that). They are, at their best, a recognition that people want to believe that they live and work in a reasonably just and decent world. Americans are gloomy about the decency of their culture and the justice of their politics; it may be one of the supreme ironies of our time that they are often more satisfied with their employer than with their community. If true, Marx has been stood squarely on his head: Life has become more alienating than work.

As Michael Novak has observed, the corporation is an important mediating structure that stands, like the family and the church, between the individual and the state. It constitutes not simply a utilitarian arrangement but a community of sorts that shapes human conduct. People, of course, know the difference between a profit-making firm, on the one hand, and a child-rearing family or a soul-comforting church, on the other. They have different expectations from each. But no economist should suppose that since firms are about profits, that is all they are about, anymore than he should imagine that because families are about sex, that is all they are about. Corporations are not vehicles for realizing the ideal society; one of their good features, as Paul Johnson has noted, is that they attach little value to Utopian causes. But they are systems of human action that cannot for long command the loyalty of their members if their standards of collective action
are materially lower than those of their individual members.

Capitalism is not irrelevant to morality: It assumes the existence of certain moral dispositions, strengthens some of these, and threatens still others. The problem for capitalists is to recognize that, while free markets will ruthlessly eliminate inefficient firms, the moral sentiments of man will only gradually and uncertainly penalize immoral ones. But, while the quick destruction of inefficient corporations threatens only individual firms, the slow anger at immoral ones threatens capitalism—and thus freedom—itself.