

## Chapter 1 Free Enterprise

### § 1. Licentious Usages of the Term 'Free Enterprise'

There is likely no phrase more familiar to the ears of Americans today than "free enterprise." As is often the case with familiar words and phrases, every adult American you might ask will be quite sure he knows what it means and he will very likely assume that what he thinks it means is what you think it means, too. There are some who presume the term "free enterprise" is of ancient vintage and that the earliest American colonists held it as an almost sacred value. Those who do presume this will likely be surprised to learn that the phrase "free enterprise" first came into use during the years 1885 to 1890 and that its first usages were in legal and propaganda contexts.

Some people assume that "free enterprise" is a technical term in economics. If so, they might be surprised to learn that it is not, although the phrase "free-enterprise economy" now is. This latter term is used synonymously with the term "free-market economy," which the *Dictionary of Economics* defines as

**free-market economy** Strictly, an economic system in which the allocation of resources is determined solely by supply and demand in free markets, though in practice there are some limitations on market freedom in all countries. Moreover, in some countries governments intervene in free markets to promote competition that might otherwise disappear. Usually used as synonymous with capitalism. [Bannock *et al.* (2003)]

As for the term "free market," Bannock *et al.* define this as

**free market** A market in which supply and demand are not subject to regulation other than normal competitive policy, but in which property rights are allocated and upheld so that trade can occur. The definition of a free market becomes blurred in cases where free trade and competition are incompatible. [*ibid.*]

It will be necessary later to give some attention to other terms like supply, demand, capitalism, competition, market, and property rights. At the moment, though, it is the idea of 'free enterprise' that occupies our central concern. There is a legal definition of 'free enterprise' given in *Black's Law Dictionary*, namely,

**free enterprise.** (1890) A private and consensual system of production and distribution, usually conducted for a profit in a competitive environment that is relatively free of governmental interference. [Garner (2011)]

There are a few questions that should give us pause here. One is why there is need of a legal definition for a term that sounds like it ought to be an economic term yet is not given a technical definition by economists. A second is why it was not until 1890 that 'free enterprise' was codified with a legal definition. A third asks when is a competitive environment "relatively free of government interference" and when is it not? A fourth asks when does intervention in a competitive environment by the government of a Republic constitute an 'interference' and when does it not? Is government 'interfering' when it makes loan-sharking illegal? Is it 'interfering' when it makes gambling illegal? Is it 'interfering' when it regulates a monopoly such as a power company, a water utility company, or a gas company? Is it 'interfering' when it forbids the sale of alcohol or tobacco to people below the age of legal majority? Is it 'interfering' when it prohibits the production and distribution of heroin or cocaine? Is it 'interfering' when it makes prostitution illegal? Is it 'interfering' when it requires a minimum wage or levies a sales tax?

There is a sound *historical* reason why the term 'free enterprise' is such an equivocal and

vague term. That reason is because 'free enterprise' originated as a *political* phrase and, to put this a bit more sharply, as a political *propaganda* term. Like all propaganda terms, 'free enterprise' is a term left deliberately vague by its originators. What is significant about the 1890 date of its inception is that this period in American history was one in which people were being killed and extensive property damage was occurring when labor strikes across America turned violent.

The history of relationships between labor organizations and government in the 19th century is one that America cannot look back upon with pride. Prior to 1842, the government held that attempts by workers to strike were illegal; strikers could be, and were, arrested, charged with conspiracy, and fined. The precedent for this was an 1806 court case, *Commonwealth v. Pullis*. It was not until March of 1842, in *Commonwealth v. Hunt*, that the Massachusetts Supreme Court ruled labor unions were legal organizations and had the right to organize and strike. In July 1851, two railroad strikers were killed and several others injured by the state militia in Portage, New York. During the Tompkins Square Riot in New York City, in January 1874, mounted police charged a crowd of demonstrators, beating men, women, and children with billy clubs and causing hundreds of casualties. A July 1877 confrontation in Chicago between members of the German Furniture Workers Union and federal troops resulted in 30 workers being killed and over 100 more being wounded. In May 1886, Wisconsin Governor Jeremiah Rusk called out the Wisconsin National Guard to put down a strike protesting the ten hour workday. The state militia opened fire on the crowd, killing seven at the scene, including one child; eight more wounded strikers later died. In November 1887, the Louisiana militia shot 35 unarmed black sugar workers who were striking to gain a dollar-a-day wage. These are all cases in which agents of the government took sides in a labor dispute. Violent confrontations between strikers and company-employed private forces – the Pinkerton Detective Agency was frequently used for this – were also not uncommon. During the Homestead Strike against Carnegie's Homestead steel mill in 1892, a gun battle between members of the Amalgamated Association of Iron and Steel Workers and Pinkerton agents killed several people and resulted in the Pinkertons being overwhelmed by the strikers. The Pennsylvania National Guard was called in to restore order in the town.

Were these examples of government 'interfering' with a competitive environment? From the point of view of the strikers it was precisely this because police and soldiers took the side of employers and helped to break the strikes. The employers being struck chose to see it as proper government intervention, not 'interference'. What was defended by agents of government during these and other incidents was an economic status quo that originated in America during the Economy Revolution from 1750 to 1800 [Wells (2013), chap. 5] and became entrenched during America's industrial revolution. America had thrown off monarchy in government but its industrial revolution remained ruled just as it was in Great Britain, i.e., by class division between an oligarchy of "masters" of businesses and the "workmen" these employed. Adam Smith wrote,

In all arts and manufactures the greater part of the workmen stand in need of a master to advance them the materials of their work and the wages and maintenance till it be completed. He shares in the produce of their labor, or in the value which it adds to the materials upon which it is bestowed, and in this share consists his profits. . . .

What are the common wages of labor depends everywhere upon the contract usually made between those two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible. The former are disposed to combine in order to raise, the latter in order to lower the wages of labor.

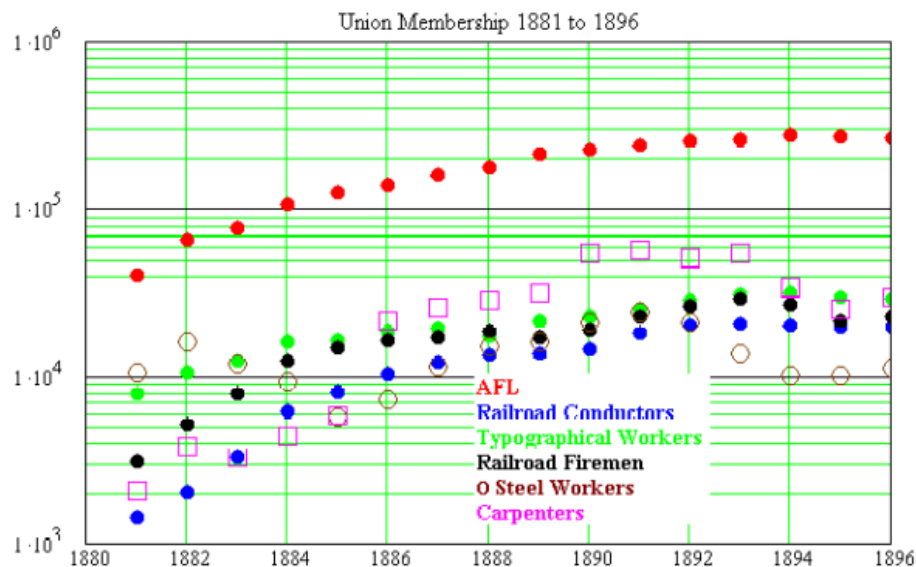
It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute and force the other into compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law, besides, authorizes or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of

work but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, a merchant, though they did not employ a single workman, could generally live a year or two upon the stocks they had already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate.

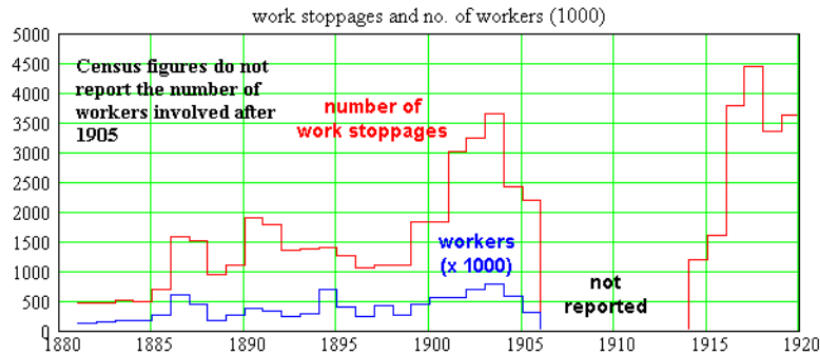
We rarely hear, it has been said, of the combination of masters, though frequently of those of the workmen. But whoever imagines, upon this account, that masters rarely combine is as ignorant of the world as of the subject. Masters are always and everywhere in a sort of tacit but constant and uniform combination not to raise the wages of labor above their actual rate. [Smith (1776), pp. 58-59]

I know some people who today protest, "Well, that might have been true in Smith's day but it is not true today. Today we have laws against employers combining to hold down wages." As sincere as these people are, they are wrong. Every year various agencies publish statistics on "market mean" wages and salaries for most wage-labor occupations, and companies do use these statistics to set wage and salary levels for their employees. As a manager, I did it. So do all the companies I have ever worked for or am familiar with. And this is nothing else than "a tacit but constant and uniform combination not to raise the wages of labor above their actual rate." The American Revolution threw out British government but life in America remained economically colonized by Great Britain, principally by means of common law conventions taken from Britain.

The legal definition of 'free enterprise' came just as membership in labor unions was on the rise in the U.S., as were strikes and lockouts. Figure 1 shows the growth in union membership from 1881 to 1896. In the decade from 1881 to 1890 membership in the American Federation of Labor (AFL) grew by a factor of ten from about 20,000 members to just over 200,000 members. Union members were only a few percent of the U.S. labor pool, but their strikes, and the lockouts by employers they faced, made national news. Figure 2 depicts the number of work stoppages (strikes and lockouts) from 1881 to 1919. It is interesting to note the gap in this data between 1905 and 1915 and the lack of census data on the number of workers affected by work stoppages after 1905. When Congress doesn't want to hear about this or other politically charged data, the Census Bureau does not collect or report it.



**Figure 1:** Membership in various unions from 1881 to 1896. Source: Wolman (1924), pg. 32.



**Figure 2:** The number of work stoppages and the number of workers (in thousands) affected from 1881 to 1919. Source: Bureau of the Census (1965), pg. 99, Series D 770, 775.

The term 'free enterprise' does not even have a common dictionary definition in the English language. Here are some examples of diverse up-to-date dictionary explanations of the term:

**from Google Search:** free enterprise is an economic system in which private business operates in competition and largely free of state control;

**from Investopedia:** free enterprise is an economic system where few restrictions are placed on business activities and ownership;

**from Merriam-Webster Online:** free enterprise is freedom of private business to organize and operate for profit in a competitive system without interference by government beyond regulation necessary to protect public interest and keep the national economy in balance;

**from the U.S. Department of Agriculture:** free enterprise is an economic system that provides individuals the opportunity to make their own economic decisions free of government constraint and as private profit-potential business.<sup>1</sup>

**from Dictionary.com:** free enterprise is

1. an economic and political doctrine holding that a capitalist economy can regulate itself in a freely competitive market through the relationship of supply and demand with a minimum of governmental intervention and regulation;
2. the practice of free enterprise in an economy, or the right to practice it.

**The American Heritage Dictionary:** free enterprise is the freedom of private businesses to operate competitively for profit with minimal government regulation.

**Colin's English Dictionary:** free enterprise is an economic system in which commercial organizations compete for profit with little state control.

**Vocabulary.com:** free enterprise is an economy that relies chiefly on market forces to allocate goods and resources and to determine prices.

**The Cambridge Dictionary:** free enterprise is an economic system in which private businesses compete with each other to sell goods and services in order to make a profit.

The ambiguity of how much "state control" is "more than a little" or "more than a minimum" is maintained in these explanatory offerings. Is *your* personal economic enterprise a 'business'? If you do not *own* a business *according to the laws* that govern where you live, then the *legal* answer to this is 'no.' As legally interpreted at present in the United States, you are just an employee of someone else and, therefore, the term 'free enterprise' does not apply to *you* and how

<sup>1</sup> from USDA publication "The American System of Business," 1994.

you earn your living. All the dictionary usages quoted above have a common parent, namely the business owners and industrialists of America in the so-called Gilded Age from *circa* 1870 to 1920. The word 'master' is not used in any of them – slavery had made that word unfashionable in the English language by then – but the usages nonetheless imply the old British feudal system of masters and workmen. This is the system presently codified into law in the United States.

If you are one of the non-owner managers of a company, you are not a 'master' either; the term that best fits what you do in the context of the usages quoted above would be 'overseer.' Among the privileges of your job is the 'privilege' of being blamed for a strike by the owner or owners of the company you work for (if it really has any). Andrew Carnegie stated this quite clearly:

One great source of the trouble between employers and employed arises from the fact that the immense establishments of today, in which alone we find serious conflicts between capital and labor, are not managed by their owners, but by salaried officers, who cannot possibly have any permanent interest in the welfare of the working-men. These officers are chiefly anxious to present a satisfactory balance sheet at the end of the year, that their hundreds of shareholders may receive the usual dividends, and that they may therefore be secure in their positions and be allowed to manage the business without unpleasant interference either by the directors or the shareholders. It is notable that bitter strikes seldom occur in small establishments where the owner comes into direct contact with his men and knows their qualities, their struggles, and their aspirations. It is the chairman, situated hundreds of miles away from his men, who only pays a flying visit to the works and perhaps finds time to walk through the mill or mine once or twice a year, that is chiefly responsible for the disputes which break out at intervals. [Carnegie (1886)]

A year after this was published, Carnegie ordered a lockout at his Edgar Thomson Works at Braddock, PA, in order to force the Knights of Labor union at that plant to accept a 10% cut in their wages and the reinstitution of the 12-hour work day. The union struck, Carnegie brought in Pinkertons and hired non-union laborers, and eventually broke the union [Nasaw (2006), pp. 314-326]. In the summer of 1892 he did it again, this time at his Homestead Plant. Here the strike turned violent, several people were killed, and the Amalgamated Association of Iron and Steel Workers union was broken [*ibid.*, pp. 405-427]. It would seem that sometimes bitter and deadly strikes are not the fault of managers. It is an uncivic legal system which condemns strikers for threatening to harm strike breakers but does not condemn business owners for forcing people into making major concessions in wages and working hours by threatening their families with starvation and threatening the lives of their children through lack of medical care because parents have no money to pay for doctors or for treatments of their children's diseases and injuries.

Carnegie was not singularly unique in his practices of coercive 'free enterprise'. Economic conditions in Great Britain were not greatly different in the 19th century from those in America. Charles Dickens attacked these conditions in his novels. Although these were works of fiction, there was satire but little exaggeration of actual conditions in Dickens' stories:

Seen from a distance in such weather, Coketown lay shrouded in a haze of its own, which appeared impervious to the sun's rays. You only knew the town was there because you knew there could have been no such sulky blotch upon the prospect without a town. A blur of soot and smoke, now confusedly tending this way, now that way, now aspiring to the vault of heaven, now murkily creeping along the earth as the wind rose and fell or changed its quarter: a dense formless jumble, with sheets of cross light in it, that showed nothing but masses of darkness: – Coketown in the distance was suggestive of itself, though not a brick of it could be seen.

The wonder was it was there at all. It had been ruined so often that it was amazing how it had borne so many shocks. Surely there never was such a fragile china-ware as that of which the millers of Coketown were made. Handle them never so lightly and they fell to

pieces with such ease that you might suspect them of having been flawed before. They were ruined when they were required to send laboring children to school; they were ruined when inspectors were appointed to look into their works; they were ruined when such inspectors considered it doubtful whether they were quite justified in chopping people up with their machinery; they were utterly undone when it was hinted that perhaps they need not always make quite so much smoke. [Dickens (1854), chap. 17, pg. 407]

It happens often enough today that similar-sounding claims of ruination are sounded by business propagandists when proposals for various regulations or laws surface in America.

Many Americans have a different usage and understanding of the term 'free enterprise.' They hold it to mean "the freedom to choose for myself how I make my living." How many Americans think of the term in this way is impossible at present to say because there have been no reliable surveys taken in regard to this question. This usage differs sharply from the pseudo-economic ones quoted earlier but is a usage lying much closer to a social-natural understanding of the term. The earlier explanations refer to abstractions such as 'economic system' that do not touch or form part of the attraction of notions of 'free enterprise' that are so characteristic of American citizens' thinking. 'Free enterprise' understood in the latter connotation, however, makes the concept quite personal for the individual and putatively can explain the effectiveness propaganda usages of 'free enterprise' has in political issues. To label someone as an opponent of 'free enterprise' pretends to say that person is someone who would forbid Americans' right to choose how to live their lives when the listener understands 'free enterprise' as "the freedom to choose for myself how I make my living." Whether unintentionally or not, the Friedmans made propaganda usage of the notion of 'free enterprise' in precisely this way [Friedman & Friedman (1980)].

If any of the earlier pseudo-technical usages of the term 'free enterprise' were actually satisfied in practice – a satisfaction not attainable because of the equivocations built into these usages – this would still not guarantee 'free enterprise' would be conducted in such a way that the terms and conditions of the American social contract are met. This is because business propaganda use of this term one-sidedly favors one specific faction of people. The Friedmans wrote,

Economic freedom is an essential requisite for political freedom. By enabling people to cooperate with one another without coercion or central direction, it reduces the area over which political power is exercised. In addition, by dispersing power, the free market provides an offset to whatever concentration of political power may arise. The combination of economic and political *power* in the same hands is a sure recipe for tyranny. [Friedman & Friedman (1980), pp. xvi-xvii]

Is 'economic freedom' essential for 'political freedom'? When the Friedmans speak of "coercion" here they are speaking of coercion by government, and when they speak of "central direction" they are speaking of central direction by government. By "political power" they are speaking of the power of political rulers. By 'freedom' what they actually mean is *liberty* since freedom and liberty are not the same thing and have been known to not be the same thing since at least the days of John Locke [Locke (1690)]. Do whatever you will and *I* am still free; whether or not I am *at liberty* to exercise my freedom in a manner I would prefer is another thing.

Let us put the Friedmans' statement that the 'free market' provides "an offset to whatever concentration of 'political power' may arise" to a simple test. First, what is 'political' power? This is yet another equivocal term. *Blackwell's Dictionary of Political Science* tells us

**political power:** Power is the central concept in political science, yet it remains elusive. There is no unit of power so it cannot be quantified. . . . Probably the best known definition of power is that of Max Weber (1864-1920) who described it as 'the chance of a man or number of men to realize their own will in a communal action against the resistance of

others who are participating in the action'. [Bealey (1999)]

In other words, 'political power' is regarded by modern political science as a power to coerce. Suppose we provisionally accept Weber's description of 'political power' and further assume a 'free market' is one without *any* governmental, legal, or other political interventions in matters of commerce, trade and barter. Suppose I am faced with choosing between the alternative of starving to death or the alternative of painting your house in exchange for being permitted to go through your garbage cans to scrounge for food. I am, of course, "free to choose" either alternative. Assuming you enjoy the protections of the police and a law prohibiting me from breaking into your house and stealing food from your pantry, you certainly hold 'political power' over me in the Weber context. Furthermore, in the 1890 legal context of 'free enterprise' given earlier, I am not *legally* coerced to accept your offer "because I could have chosen to refuse it." Is *this* the 'political freedom' the Friedmans tout as the benefit of 'free enterprise'? Their propaganda arguments in *Free to Choose* logically hold it to be so. I doubt, though, if most people would regard it as either a benefit or as the exercise of political freedom. I doubt if even the Friedmans *really* regard it so.

This hypothetical argument is, of course, a *reductio ad absurdum*. But how far-fetched is it? Historians Adams & Vannest tell us,

The Northern workman might be "free" politically and legally, but economically he was far from being free. In New England mills in the 1830s the hours of work ranged from twelve to fifteen. The manager of one mill at Holyoke found that his operatives could produce 3000 more yards of cloth a week if he worked them without breakfast. In Paterson, New Jersey, the women and children were worked from 4:30 in the morning. Rhode Island mills were working children under twelve from ten to fourteen hours a day, six days a week, one of the managers proudly saying that he allowed them to go to school on Sundays. Their wages were one dollar and a half a week. Another Massachusetts owner stated that he considered his workers precisely as he did his machines. When either got old or out of order, he threw them out. Employees who made trouble were blacklisted and often could get no work elsewhere unless they carried a card of approval from the last mill in which they had worked. Under those conditions "freedom" was not freedom at all. [Adams & Vannest (1935), pp. 658-659]

Historically, then, my absurd example above is actually not too far-fetched at all. The economic conditions in 19th century America Adams & Vannest described, and those in Great Britain in the 19th century, provided ample fodder for the propaganda campaigns of Marx, Engels and the Communist Party in 19th century Europe [Marx & Engels (1847); Marx (1867)]. The so-called "definitions" of 'free enterprise' that originated in 1885-1900 were as much aimed at opposing communism as they were at suppressing and breaking labor unions.

The bottom-line points I am making here are: (i) we do not have an objectively valid real explanation of what we are to understand by 'free enterprise'; and (ii) licentious propaganda usage is made of its commonplace descriptions by divers factions – both pro-business and anti-business – in political debates and acts of the divers state legislatures and the Congress. It is not possible to establish true *justice* in American economic life without having an objectively valid real explanation of 'free enterprise.' Providing one is therefore the first order of business in this treatise.

## § 2. The Division of Labor

Understanding free enterprise requires understanding division of labor. Whatever free enterprise is, the usages discussed above make it clear that it has something to do with commerce and something to do with people's livelihoods. All economic phenomena, like all social phenomena in general, are caused by people. Human beings are the "social atoms" of all social phenomena, and

all economic phenomena are social phenomena. Critical theory defines social-natural ***economics-in-general*** as *the production, distribution and consumption of assets of wealth-in-general* [Wells (2014)].<sup>2</sup> The distribution criterion makes real economic science a science of social phenomena because distribution requires interactions among multiple people. Understanding 'free enterprise' begins with understanding human nature, as does understanding of *every* social-natural science.<sup>3</sup>

It is beyond reasonable scientific doubt that the earliest prehistoric hunter-gatherers gathered and consumed wealth-assets<sup>4</sup> but did not produce or distribute them. Evidence of this is found from studies of the relatively few hunter-gatherer Societies that still existed in the 20th century. Those Societies are more advanced than Lower Paleolithic hunter-gatherer Societies inasmuch as the former produce man-made shelters and tools, whereas Early Stone Age Societies used tools and shelters found in nature. *Crafts* of tool-making were a likely first step on the long prehistoric road to inventing economic systems and recognizable social practices of economics.<sup>5</sup> ***Commerce*** is *the reciprocal exchange of wealth-assets*, and a true ***economy*** appears when commerce based on ***division of labor*** appears in a Society.

Adam Smith speculated on how the socio-economic phenomenon of division of labor might have first appeared:

This division of labor, from which so many advantages are derived, is not originally the effect of any human wisdom which foresees and intends the general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in its view no such extensive utility: the propensity to truck, barter, and exchange one thing for another. . . .

As it is by treaty, by barter, and by purchase that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labor. In a tribe of hunters or shepherds, a particular person makes bows and arrows, for example, with more readiness and dexterity than any other. He frequently exchanges them for cattle or for venison with his companions; and he finds at last that he can in this manner get more cattle and venison than if he himself went to the field to catch them. From a regard to his own interest, therefore, the making of bows and arrows grows to be his chief business, and he becomes a sort of armorer. Another excels in making the frames and covers of their little huts or movable houses. He is accustomed to be of use in this way to his neighbors, who reward him in the same manner with cattle and with venison till at last he finds it in his interest to dedicate himself entirely to this employment and to become a sort of house-carpenter. In the same manner a third becomes a smith or a brazier, a fourth a tanner or dresser of hides and skins, the principal part of the clothing of savages. And thus the certainty of being able to exchange all that surplus part of the produce of his own labor, which is over and above his own consumption, for such parts of the produce of other men's labor as he may have occasion for, encourages every man to apply himself to a particular occupation, and to cultivate and bring to perfection whatever talent or genius he may possess for that particular species of business. [Smith (1776), pp. 12-14]

What Smith called the "trucking disposition" of human beings is not an instinct nor an innate

<sup>2</sup> ***Wealth-in-general*** is that which is not ***unwealth***. ***Unwealth*** is lack of what is practically needed to attain a state of satisfaction.

<sup>3</sup> A ***social-natural science*** is a natural science whose topic concerns the mental Nature of being a human being insofar as the topical phenomena co-involve two or more human beings.

<sup>4</sup> A ***wealth-asset*** is any good for which its use negates ***unwealth***. Food is a basic human wealth-asset since a condition of starvation is not a satisfying condition.

<sup>5</sup> See Barnard (1993) and Turnbull (1961). Tool usage predates the appearance of *H. sapiens* but evidence suggests humans were inventing tool *crafts* by the end of the Lower Paleolithic era [Adler *et al.* (2014)].



inclination of human beings in and of itself. Smith's conjecture is not-unreasonable but it does make one key presupposition, namely that, *prior* to the establishment of divisions of labor, people would have some reason to produce *surplus* economic goods by means of their labor. Smith's prehistoric "armorer" could not barter his surplus bows and arrows for cattle and venison if he did not make a surplus of bows and arrows in the first place. Neither could he barter a surplus if his companions in his tribe chose to make their own bows and arrows. After all, a large game animal would obviously be worth more than a few arrows and a bow. Even if others' bows and arrows were of inferior quality, provided they were good enough to bring down game in a fairly reliable manner, why would the companions exert the effort needed to obtain for themselves *their own surplus* of cattle and venison they would need in order to trade for the bows and arrows of Smith's prehistoric "armorer"? Smith's conjecture exhibits a degree of adult egocentrism one can expect of a person who was born into a Society where divisions of labor were already established. The division of labor is *not* so simple to understand as Smith's conjecture seems to make it look.

For example, divisions of labor are *to this day* unusual in the world's oldest known Society, namely that of the BaMbuti Pygmies of the Congo. Turnbull found,

There was a confusing, seductive informality about everything they did. Whether it was a birth, a wedding, a funeral, in a Pygmy hunting camp or in a Negro village, there was always an unexpectedly casual, almost carefree attitude. There was, for instance, little apparent specialization; everyone took part in everything. . . . Between men and women there was also a certain degree of specialization, but little that could be called exclusive.

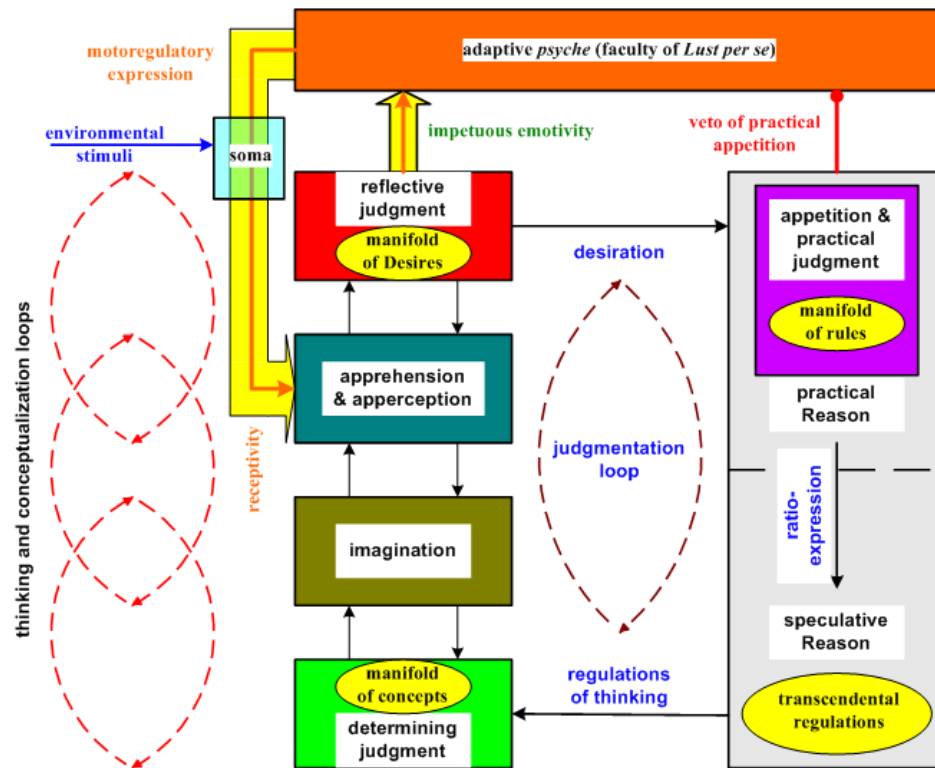
There were no chiefs, no formal councils. In each aspect of Pygmy life there might be one or two men or women who were more prominent than others, but usually for good practical reasons. [Turnbull (1961), pg. 110]

The BaMbuti are a pre-agrarian Society. This is not because they know nothing about it; there are other African Societies, e.g. the Bantu, living in villages near the BaMbuti with whom the latter interact. They maintain plantations and through them the BaMbuti have come to know about agriculture and agrarian life. BaMbuti even occasionally trade their own labor on the plantation in exchange for village goods. The BaMbuti know about agriculture; they just don't adopt it or its lifestyle for themselves. For them the Agriculture Revolution has had little to no appeal.

Even in agrarian Societies, the division of labor is not far advanced. Smith noted that

As it is the power of exchanging that gives occasion to the division of labor, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the product of his own labor, which is over and above his consumption, for such parts of the produce of other men's labor as he has occasion for.

There are some sorts of industry, even of the lowest kind, which can be carried on nowhere but in a great town. A porter, for example, can find employment and subsistence in no other place. A village is much too narrow for him; even an ordinary town is scarce large enough to afford him constant occupation. In the lone houses and very small villages which are scattered about in so desert a country as the Highlands of Scotland, every farmer must be butcher, baker and brewer for his own family. In such situations we can scarce expect to find even a smith, a carpenter, or a mason within less than twenty miles of another of the same trade. The scattered families that live at eight or ten miles distant from the nearest of them must learn to perform themselves a great number of little pieces of work for which, in more populous countries, they would call in the assistance of those workmen. Country workmen are almost everywhere obliged to apply themselves to all the different branches of industry [Smith (1776), pp. 15-16].



**Figure 3:** The mathematical structure of thinking and judgmentation in the phenomenon of mind.

From such observations it can be easily seen that some aspect of necessitation – *i.e.*, of being *made* necessary – underlies both the emergence of specialized markets and the division of labor. The BaMbuti find no such necessitation in their lives; why did other Societies? Here there are two basic aspects of human nature that must be considered. The first is the satisficing nature of human behavior. The second is the *homo noumenal* factor of private Duties-to-Self.

## §2.1 The Satisficing Nature of Human Behavior

The satisficing nature of human behavior is a consequence of the judgmentation loop in the motivational dynamic of human actions [Wells (2009), chaps. 1, 10]. Figure 3 illustrates the mathematical structure of thinking and judgmentation in the phenomenon of mind. A cycle of judgmentation is evoked when the person undergoes some disturbance to his state of equilibrium that cannot be immediately assimilated into his existing structure of practical rules (in practical Reason) or compensated by ignoring the disturbing factor (type- $\alpha$  compensation behavior, also called *ignórance*, pronounced "ig-NOR-ance"). The process of practical Reason is the master regulator of all non-autonomic human actions and regulates in accord with the first law of human Reason (the categorical imperative of pure practical Reason). This law regulates for one thing and one thing only: the establishment and maintenance of a state of equilibrium. Practical Reason knows no objects and feels no feelings. Its sole purpose is establishing and maintaining a state of equilibrium. It is an *impatient* process and will always "settle" for whatever response it finds (through judgmentation) that first satisfies equilibrium. This is a *theorem* of the mental physics of the phenomenon of mind. It is this aspect of human judgmentation that is called the satisficing character of human behavior. Smith's conjecture is congruent with this basic aspect of human nature but is not a necessary consequence of it.

Empirically, no human being ever succeeds in finding a state of perfectly robust equilibrium.

There are always other stimulations that agitate equilibrium and provoke further actions. The law of the categorical imperative is not a law defining a *state* of perfect equilibrium but, rather, a formal law (a "formula") for *seeking to achieve and perfect* it [Wells (2009), chap. 12].

Numerous empirical findings of industrial psychology conform to this causative law of human problem-solving behavior. The psychological model of man as a satisficing problem-solver has come to replace an earlier psychology model, known as the rational model, that was once used extensively in economic theory under the label "the rational man model" [Simon (1956)]. We know the rational man model is incorrect, and the satisficing model has replaced it in industrial psychology. Leavitt wrote,

But notice that in most cases, whether seeking a wife or a used car, deciding which of several package designs to adopt, or trying to choose among several applicants for a job, we follow what some authors have recently called a *satisficing* model. We usually indulge in a limited amount of search until we reach a *satisfactory* rather than an optimal alternative.

This model of man as a satisficing problem-solver – as an individual using both his head and his guts with a limited degree of rationality and with large elements of strategic guess-work – this is quite a different model from others that have existed in the past. Some earlier conceptions of problem-solving laid almost exclusive emphasis on the impulsive and emotional aspects of behavior. . . . When one talks about the "cost" of a search, one must take into account the *psychological* cost. . . .

The satisficing model is also very different from still a third model that many of us carry around with us. The third is a rational model of problem-solving behavior.

The rational model began as a description of how people *ought* to solve problems rather than how they do solve them. Somewhere along the line this distinction became blurred; researchers and even industrial problem-solvers now sometimes treat the rational model as though it were a description of the way people actually behave in problem situations. [Leavitt (1972), pp. 63-64]

The satisficing problem-solver model was still fairly new and conjectural in 1972. The new doctrine of mental physics, which first appeared in 2006 [Wells (2006)], teaches that the satisficing model is objectively valid and that the types of problem-solving behaviors Leavitt discussed are special cases of a more general causative law of human behavior. Division of labor in economic life is simply another special case aspect of this same law: when by division of labor people can easier satisfy their interests, they adopt it. For example, in the early years of the Hewlett Packard Company, when the company was still exclusively a maker of electronic test equipment, a great deal of the company's market research relied upon what was called "next bench syndrome" [Packard (1995), pg. 97]. The idea was a simple one. If an engineer invented a new kind of test instrument in the course of working on his own assignment and the engineer "at the bench next to his" liked it and started using it then the company predicted that other engineers at other companies would also want to have and use this instrument. The incidental invention would then be developed as a new product. During the first few decades after the company was founded "next bench syndrome" was used to grow Hewlett Packard from a small start-up company to a large company that came to dominate the test-and-measurement industry. Their strategy worked because it was congruent with the satisficing character of human nature.

A more recent example is provided by the spectacular adoption of the Internet. How many of us "needed" the Internet before it arrived on the scene in the early '90s? Now the great majority of people in developed countries all over the world go "on line" every day. The mere appearance of the Internet when it became publicly available was itself a great disturbance event inasmuch as millions of people suddenly came to regard many old ways of doing things as no longer

"satisfactory" and the Internet as "the solution" for "problems" that they had not even known they had beforehand. Its possibilities made them *conscious of lacks* they had tolerated before it came along and moved them to become intolerant of continuing to "put up" with those lacks.

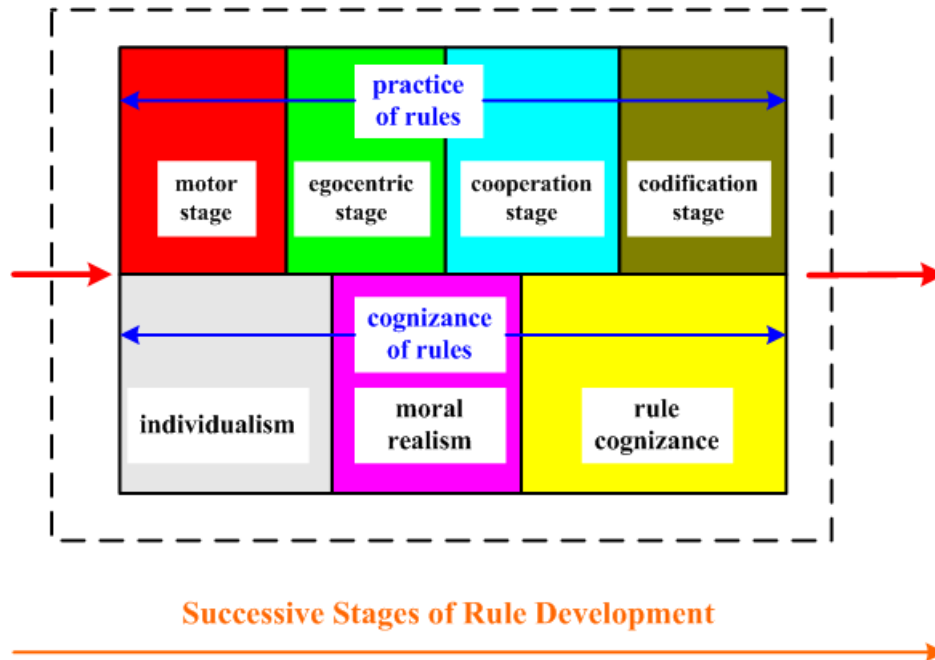
In this regard it is instructive to look at the Critical real-explanations of "satisfaction" and "dissatisfaction." **Satisfaction** is a *subjective sense of complacency, as a context of well-being, carrying the connotation, "oh, this is not-bad."* **Dissatisfaction** is a *subjective sense of disturbance or ill-being carrying the connotation, "oh, this is not-good."* Dissatisfactions are sources of disturbances to equilibrium. Note that there is a curiously "negative" character to both of these. A satisfaction is not a sense of "something good"; it is a sense of "something not-bad." A dissatisfaction is not a sense of "something bad"; it is a sense of "something not-good." This aspect of satisfaction and dissatisfaction arises from the fact that human practical Reason knows no objects and practical judgment is only capable of judging circumstances to be *in known violation* of the formula of its categorical imperative. Practical Reason exercises a veto power over human actions; it is not proactively prescriptive. Consequently, human willpower is more accurately described as a "free won't" rather than a "free will" – a finding newly confirmed in the last decade by neuroscience research [Obhi & Haggard (2004)].

## §2.2 Duties-to-Self

Every person experiences affective perceptions of and builds concepts of right vs. wrong and good vs. evil. Furthermore, a person's actions are conditioned by these and by unconditioned, unconscious practical rules he constructs in his manifold of rules (see figure 3). No two people construct exactly the same set of practical rules standing under the same unconditioned practical imperatives in their rule manifolds and so do not completely agree about "what is right (or wrong)" or "what is good (or evil)." Each person builds for himself a private "moral code" in his manifold of rules by which he determines his actions. Each person constructs for himself a system of private ethical concepts in his manifold of concepts that he uses to try to decide what he ought to do in various special circumstances. That part of mental physics doctrine explaining the grounds and conditions of these constructions is called the **deontological theory of morals**. The adjective "deontological" means this theory is not *ontology*-centered but is instead *epistemology*-centered, i.e., grounded in the Critical theory of the possibility of human knowledge. This grounding gives the theory objective validity for explaining human actions. In contrast, historical ethics theories (consequentialist ethics, virtue ethics) are ontology-centered and, because of this, they lack real objective validity. Among many things, this has fundamental implications for the development of economic systems.

It is beyond reasonable doubt that human beings do make moral judgments. It is also beyond reasonable doubt that these judgments develop through experience beginning in childhood. Piaget documented a number of characteristics of this development [Piaget (1932)]. He found that this development is described by two parallel and interrelated stages of developments, one pertaining to the practice of empirical moral rules of behavior and the other to the cognizance (conceptualization and awareness) of these rules. Figure 4 summarizes Piaget's empirical findings. Respectively, these implicate the manifold of rules and the manifold of concepts.

But because each individual's construction of his private "moral code" in his manifold of rules is an outcome of his experiences, and because no two people's personal experiences are exactly alike, no two people hold to the same system of moral rules. Put another way, individual moral codes are *subjective*. This presents a great challenge to Societies because the people living in them must come to terms with one another's habits and behaviors successfully enough that they can live and work together without their association disintegrating in violence and bloodshed. We all take the moral customs of our parent Societies more or less for granted, but the fact these exist



**Figure 4:** Successive stages of development of the practice of moral empirical rules and cognizance of them in childhood. Here "moral" implies judgments of right vs. wrong and good vs. evil.

at all is such a singular social phenomenon that it is a topic deserving of its own social-natural science. That science is called *deontological ethics*, the social-natural science of acts imputable to the actor through being attributed to Duties of a person in regard to the situation of other persons, such Duties being established according to terms and conditions of a social contract. The process that a person goes through, usually in childhood, by which he comes to learn these terms and conditions, and agrees to more or less abide by them, is called *socialization*.

Aristotle was the first theorist to attempt to understand deontological ethics as a natural science. Although his efforts fell short of achieving it, he did find one of its key principles:

Virtue, then, being of two kinds, intellectual and moral, intellectual excellence in the main owes both its birth and its growth to teaching . . . while moral excellence comes about as a matter of habit . . . From this it is also plain that none of the moral excellences arise in us by nature for nothing that exists by nature can form a habit contrary to its nature. [Aristotle (date unknown), Bk II, 1103<sup>a</sup>14-20]

The moral excellences Aristotle is talking about are those customs called the mores of a Society, which Kant called *Sittlichkeit* or 'moral custom.' What is important about Aristotle's principle is that it is not enough for a person to simply know the mores of his Society. Rather, he must practice them until acting in accordance with them becomes habitual. If he does not, then within his Society the person is said to be *antisocial*.

The first high level practical tenets and maxims a person develops in his manifold of rules all pertain to obligations-to-himself. An *obligation* in general is *a ground for an act that originates from the manifold of rules of practical Reason through ratio-expression*. This means: (i) the action a person undertakes is conditioned by a practical maxim in his manifold of rules that the person *holds to be binding* (that is, expression of the action is made necessary by the legislation of practical Reason); and (ii) the specific action expressed is produced by motivation. Motivation is produced in the cycle of judgmentation in reasoning (see figure 3) and it is adjudicated by the process of reflective judgment (subject to practical Reason's power to veto action expressions).

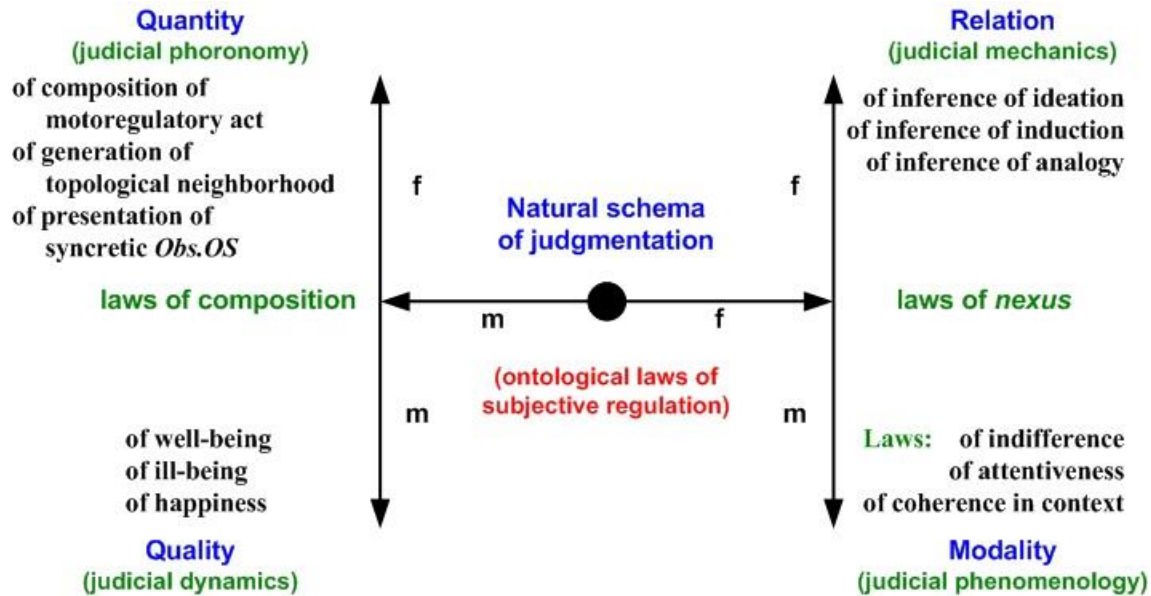


Figure 5: Mathematical structure of the natural schema of judgmentation.

An obligation subsists in the person's practical rules, but it is erroneous to think the manifold of rules is merely some collection of fixed computer-program-like sequences of actions<sup>6</sup>. At all times the structure of the manifold of rules is under the rigid regulation of the process of practical Reason and its categorical imperative. When (not if) the existing rule structure is shown in actual experience to be inadequate for satisfying equilibrium, the regulation of Reason brings the process of practical judgment into play *to accommodate the manifold of rules*. Pure practical Reason "cares" about only one thing: producing and maintaining a state of equilibrium. The manifold of rules is *made to serve* this pure and *uncompromising* purpose of pure Reason.

To effect this regulation requires the cooperation of all three of the processes of judgment in figure 3: reflective judgment; practical judgment; and determining judgment. This cooperation follows a *natural schema of judgmentation* mathematically depicted in figure 5 [Wells (2009), chap. 7; Wells (2006), chap. 18, pp. 1730-1769]. Without stretching the metaphor too far, this natural schema can be called a "physics of psychology" inasmuch as it pertains to laws governing psychological objects. Figure 5 does not describe the processes of judgment but, rather, the nature of their interactions and cooperations in the judgmentation loop of figure 1. The natural schema is a schema for representing experience and knowledge.

How this pertains to the present discussion is perhaps most simply explained by explaining the difference between obligation and Obligation. An obligation subsists in the manifold of rules. An **Obligation** is an overall orientation of judgmentation in the self-determination of appetites such that the action is necessitated by a practical moral imperative. The former speaks to specifics of action-determination, the latter to the construction of a *system* of practical obligations. It is this system that underpins the individual's construction of values and his personal value system that subsists in his manifold of rules. The first obligations a human being constructs are, without any exceptions, obligations *to himself*. A newborn infant begins Self-constructing rules of obligation-to-himself even before he makes that conceptual breakthrough by which he divides his universe into a "me" and a "not-me" and makes himself an object among objects in his world. It is perhaps tritely evident that a baby can form no obligations-to-others before he knows there *are* others. A

<sup>6</sup> This is an error typically made in so-called "artificial intelligence" research, so-called "fuzzy systems" research and, in a different form, by the neural network theory of "actor-critic" systems [Barto, *et al.* (1983)].

young child's moral obligations, and his concepts of them (Duties and duties) typically are not what adults habitually call obligations or Duties – because people are trained by custom and instruction to call only obligations-to-others and Duties-to-others "obligations" and "Duties" – but to a young child *his* moral obligations are no less binding to him (indeed, they are often *more* binding to him) than the most cherished of adult constructs are to adults.

A *Duty* is a *necessitated and objectively practical act in accordance with an idea of objective moral law that excludes all personal inclinations from serving as the ground of the action*. A *duty* is a *necessitated action connected in a formula of obligation corresponding to a form of Duty*. An obligation subsists in the manifold of rules but a Duty is an act defined by concepts in a person's manifold of concepts. An obligation is the *form* of a rule of action. A Duty is the *matter* of an obligation *as the person comes to understand it*. Kant liked to say a Duty represents an "ought to" (and this is why a person can fail to perform a Duty – and *will* whenever his understanding of a Duty comes into conflict with Reason's uncompromising requirement for equilibrium). In contrast an obligation cannot be gainsaid in an individual's Self-determination of action. A person can make an adaptation that changes his manifold of rules structure, but he can never act in any way that is contrary to his *current* practical rule structure. Metaphorically, one can say obligation always trumps Duty.

Because it is the individual who Self-constructs his own manifold of rules, it follows that *no person can place another person under any obligation whatsoever*. Furthermore, no one can force another person to accept any particular Duty. You might coerce him into doing what you want, but acting under coercion is in no way whatsoever the same thing as acting from Duty. This aspect of human behavior is one of the manifestations of the phenomenon of human freedom. You can hinder or restrict a person's *liberties*, but you cannot hinder his *freedom* except by killing him. Note that I am not saying "you should not place another person under an obligation"; I am saying it is *impossible* for you to do this. Rousseau put it this way:

The strongest is never strong enough to always be the master unless he transforms strength into right and obedience into duty. . . . Force is a physical power, and I fail to see what moral effect it can have. To yield to force is an act of necessity, not of will – at most, an act of prudence. In what sense can it be a duty? . . . If we must obey perforce, there is no need to obey because we ought; and if we are not forced, we are under no obligation to do so. Clearly the word "right" adds nothing to force; in this connection, it means absolutely nothing. [Rousseau (1762), pg. 5]

A Society's moral customs – its mores – are matters of conventional agreement. A Society's mores refer to generally agreed-upon reciprocal Duties, each person to the other. But all such Duties are *derived* from foundations in persons' Duties-to-themselves. Kant was the first major philosopher to recognize the natural primacy of Duties-to-Self:

The first topic, however, is our Duties to ourselves. These are not taken in juridical regard, for justice regards only the relationship to other people. . . . We shall be speaking here of the use of freedom in regard to oneself. . . . Far from [Duties to Self] being the lowest, they actually take first rank and are the most important of all; for even without first explaining what Duty to Self is, we may ask, If a man debases his own person what can one still demand of him? [Kant (c. 1784-85), 27: 340-341]

Kant's only error here was in thinking a person *could* "debase" himself. The word "debase" in this context has no meaning unless it means "acting contrary to obligations to yourself" and no person *can* do that. Kings that force their subjects to grovel do not by that win their subjects' respect; they only provoke maxims of prudence (a form of duty to Self) in a way that invites some future reckoning to be visited upon his person.

All economic systems trace their foundations to human actions springing from Obligation- and Duty- to-Self. Adam Smith as much as said this using different words:

[Man] has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. 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. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantage. [Smith (1776), pg. 13]

Once divisions of labor have been established, behavioral motivations grounded in Duties-to-Self are easily discernable in commercial transactions. But this still leaves us facing the question of what motivates the original actions that brought about economic divisions of labor in the first place. Such divisions are not automatic; they are minority occurrences in agrarian Societies and almost non-existent in hunter-gatherer Societies. Divisions of labor are predominantly industrial and trade developments. What factors contribute to division of labor as a social phenomenon?

### § 2.3 The Passion for Distinction and Behaviors of Emulation

One easily observable mainspring of an individual's judgments of his own wants and needs is his observation of material benefits and advantages others have that he does not. This is clearly not the only such mainspring, but it is empirically undeniable that it is one of them. I am about to speculate that this human propensity is related to psychological origins of the division of labor, but that proposition requires a closer look at this propensity.

It seems clear that this phenomenon is related to other observable human behaviors. One of these is imitation. Another is what present-day psychology calls "observational learning." Both are related to what John Adams called "the passion for distinction":

Men, in their primitive conditions, however savage, were undoubtedly gregarious; and they continue to be social, not only in every stage of civilization, but in every possible situation in which they can be placed. As nature intended them for society, she has furnished them with passions, appetites, and propensities, as well as a variety of faculties, calculated both for their individual enjoyment, and to render them useful to each other in their social connections<sup>7</sup>. There is none among them more essential or remarkable than the *passion for distinction*. A desire to be observed, considered, esteemed, praised, beloved, and admired by his fellows is one of the earliest, as well as keenest dispositions discovered in the heart of man. If anyone should doubt the existence of this propensity, let him go and attentively observe the journeymen and apprentices in the first workshop, or the oarsmen in a cockboat, a family or a neighborhood, the inhabitants of a house or the crew of a ship, a school or a college, a city or a village, a savage or a civilized people, a hospital or a church, the bar or the exchange, a camp or a court. Wherever men, women, or children are to be found, whether they be old or young, rich or poor, high or low, wise or foolish, ignorant or learned, every individual is seen to be strongly actuated by a desire to be seen, heard, talked of, approved and respected, by the people about him and within his knowledge. . . .

A regard to the sentiments of mankind concerning him, and to their dispositions towards

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<sup>7</sup> We will ignore Adams' specious personification of "nature." The overall thesis he is presenting derives from Aristotle's moral-political theory [Aristotle (date unknown), II, v, 1105<sup>b</sup>20-29] and so is separable from Adams' quasi-religious pseudo-ontology of "nature."



him, every man feels within himself; and if he has reflected, and tried experiments, he has found that no exertion of his reason, no effort of his will, can wholly divest him of it. In proportion to our affection for the notice of others is our aversion to their neglect; the stronger the desire of the esteem of the public, the more powerful the aversion to their disapprobation; the more exalted the wish for admiration, the more invincible the abhorrence of contempt. Every man not only desires the consideration of others, but he frequently compares himself with others, his friends, or his enemies, and in proportion as he exults when he perceives that he has more of it than they, he feels a keener affliction when he sees that one or more of them are more respected than himself.

This passion, while it is simply a desire to excel another, by fair industry in the search of truth and the practice of virtue, is properly called *Emulation*. When it aims at power, as a means of distinction, it is *Ambition*. When it is in a situation to suggest the sentiments of fear and apprehension, that another who is now inferior will become superior, it is denominated *Jealousy*. When it is in a state of mortification at the superiority of another, and desires to bring him down to our level or to depress him below us, it is properly called *Envy*. When it deceives a man into a belief of false professions of esteem or admiration, or into a false opinion of his importance in the judgment of the world, it is *Vanity*. These observations alone would be sufficient to show that this propensity, in all its branches, is a principal source of the virtues and vices, the happiness and misery of human life; and the history of mankind is little more than a simple narration of its operations and effects. [Adams (1790), pp. 338-340]

As Turnbull reported, even within a BaMbuti Pygmy group, exhibitions of Adams' "passion for distinction" are put on display by its members rather frequently [Turnbull (1961)]. However, the BaMbuti did not develop the division of labor to any significant degree, and so a passion for distinction is not a sufficient condition for explaining how or why the division of labor was first developed. Something in addition is needed. In the case of the BaMbuti, communal cooperation is their most fundamental social more and all important decisions in their Community are made by consensus. Turnbull tells us,

This incident illustrates one of the most remarkable features of Pygmy life – the way everything settles itself with apparent lack of organization. Co-operation is the key to Pygmy society; you can expect it and you can demand it, and you have to give it. If your wife nags you at night so that you cannot sleep, you merely have to raise your voice and call on your friends and relatives to help you. Your wife will do the same, so whether you like it or not the whole camp becomes involved. . . . If it is a matter involving the hunt, every adult male discusses it until there is agreement. . . .

In fact, Pygmies dislike and avoid personal authority, though they are by no means devoid of a sense of responsibility. It is rather that they think of responsibility as communal. If you ask a father or a husband why he allows his son to flirt with a married girl, or his wife to flirt with other men, he will answer, "It is not my affair," and he is right. It is *their* affair, and the affair of the other men and women, and of their brothers and sisters. He will try to settle it himself, either by arguments or by a good beating, but if this fails he brings everyone else into the dispute so that he is absolved of personal responsibility. [Turnbull (1961), pp. 124-125]

Personal responsibility is one of the things that inevitably accompanies permanent or semi-permanent divisions of labor. The BaMbuti social view of personal responsibility Turnbull described produces a powerful social more antagonistic to division of labor. The clear implication of this is that Adams' "passion for distinction" is something heavily moderated by social customs in regard to socially acceptable conditions under which it may be put on display in a Society.

*Gemeinschaft* Societies, such as that of the BaMbuti, are only maintained up to some crucial and rather small level of population. Beyond this level, a Society will undergo a social revolution,

usually transforming itself into one of the more common forms of monarchy/oligarchy, non-consensus democracy, or a republic. When this happens, specialization of at least some individual social roles are inevitable, both politically and economically. What sorts of specializations appear will be conditioned by innovations that promote the general welfare of the Society or, at the least, the welfare of the members of its ruling class. The origins of labor specialization are lost in the fog of prehistory and so it is not presently possible to say with any reasonable certainty what sorts of early labor specializations occurred and it cannot be presumed that there might be some original specialization that was unique. One of the earliest after the Agriculture Revolution was that of the warlord-king and his *hirdmen* in relationship to a peasant majority<sup>8</sup>. Another early one is seen in the invention of "international" trade between different towns and states.

Once divisions of labor appear, Adams' "passion for distinction" is also a factor in the course of its further development. Two general types of manifestations of it can be noted: (i) distinctions *within* a particular trade; and (ii) distinctions *between* different trades. Both motivate individual skill development, although achieving distinction in the latter case can be opposed by barriers of caste large Societies have historically tended to establish and which present real hindrances to individuals' liberties of action. A *passion* is an appetite of inclination (*i.e.*, an habitual sensuous purpose a person has made into a maxim in his manifold of rules) that makes it difficult or impossible for a person to choose his actions according to objective ideas of fundamental principles [Kant (1790), pg. 272 fn]. A "passion for distinction" therefore is directly tied to maxims of Duties-to-Self that ground a person's practical appetite in an object of Desire.

Among the various passions Adams labeled above, the one that is the most pertinent to stable establishments of divisions of labor in a Society is emulation. The notion of "emulation" is an old one going back to Aristotle's psychology:

Since things that are found in the *psyche* are of three kinds – passions, abilities, dispositions – excellence must be one of these. By passions I mean desire, anger, fear, confidence, envy, joy, friendship, hatred, longing, fear, emulation, pity and in general the feelings that are accompanied by pleasure or pain. [Aristotle (date unknown), Bk. II, 1105<sup>b</sup>19-25].

Aristotle's word that I have translated here as "emulation" was ζήλον (*zelon*), which can be translated either as eager rivalry or emulation but can also mean jealousy [Liddell & Scott (1996)].

For centuries very little attention was paid to technically refining Aristotle's term. This is consistent with scientists' general aversion to and ignorance of "emotions" and affectivity in general. The first psychologist to take a feeble swing at "emulation" was William James, who wrote that

man is essentially *the* imitative animal. His whole educability and in fact the whole history of civilization depend on this trait, which his strong tendencies to rivalry, jealousy, and acquisitiveness reinforce. . . . But apart from this kind of imitation, of which the psychological roots are complex, there is the more direct propensity to speak and walk and behave like others, usually without any conscious intention of so doing. . . . Imitation shades into

*Emulation* or *rivalry*, a very intense instinct, especially rife with young children, or at least especially undisguised. Everyone knows it. Nine-tenths of the work of the world is done by it. We know that if we do not do the task someone else will do it and get the credit, so we do it. It has very little to do with sympathy, but rather more with pugnacity [James (1890), vol. II, pp. 408-409].

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<sup>8</sup> Dyer has pointed out that, once agriculture was invented, the existence of farms and the need to store grain as a precaution against bad crop years also produced a practical need for planning and coordinating authorities; at the same time, it also produced something worth other people's efforts to steal. The first armies and perhaps the first organized priesthoods likely arose from the latter [Dyer (1985), pp. 16-17].

To James, emulation was an "instinct." James' theory of instincts has some points of interest in it, but by and large his notion of "instincts" was rejected by 20th century psychology theory. Even so, James' connotations of "imitation," "educability," and "rivalry" for the term "emulation" have by and large been retained by psychologists. Salovey uses the term to mean "non-malicious envy" and uses the term "envy" to denote "malicious envy" [Salovey (1991), pg. 9]. Since the late 1980s psychologists have done a lot of re-defining of "emulation," trying to make it a less equivocal term. It has been closely linked to the term "observational learning," *i.e.*, learning that takes place by simply having the learner observe someone else performing the to-be-acquired behavior. Reber & Reber define "emulation" as

**emulation** The process of copying a pattern of behavior. The term carries the connotation that the person doing the copying is attempting to achieve the same goals as the person he or she is emulating. Distinguish subtly from IMITATION, the implication of which is that it is the behavior alone that is being mimicked without there necessarily being a particular goal beyond this. [Reber & Reber (2001)]

Present-day psychologists tend to undertake some rather backbreaking labor trying to avoid talking about goals, and the above usage of the term tilts in the direction of this tendency by making "behavior" the key term in the definition ("copying" is a behavior) rather than aiming at understanding the *causes* of such behaviors. Emulation-as-a-passion, in the Critical understanding of that word explained above, keeps our terminology more immediately focused on causative explanation by explicitly retaining its linkage to the mental physics of the phenomenon of mind. Specifically, as an appetite of inclination, emulation is placed in direct relationship to the person's manifold of rules structure and his self-constructed maxims of obligations-to-Self.

What, though, of "imitation" and the rather opaque distinction between it and emulation that modern psychology tries to make? Unlike emulation (a passion), imitation *is* a behavior and so is *essentially* different from emulation. The manifold of practical rules conditions expressed behavior but what is it that leads to those behaviors we call imitative? Mimesis *is* one of the most often observed types of human behavior, but what accounts for its rather startling frequency?

The answer to this lies in the satisficing nature of human problem-solving. It is far easier and quicker to *adopt* a behavior one has observed than it is to *invent* a new behavior. The latter requires a significant build-up of the manifold of concepts *plus* metaphorical conceptualizations through the power of reflective judgment. For this reason, re-equilibration is achieved quicker by means of imitative solutions than it is by creative invention. The process of practical Reason, which is the master regulator of all non-autonomic human actions, is an *impatient* process that aims to accomplish re-equilibration as expediently and quickly as possible. Only when mimesis fails to satisfy equilibration, through inability to harmonize the representations of the processes of reflective, practical, and determining judgment, does a human being undertake the more difficult process of judgmentation that produces concepts of analogy which, in turn, disclose new *creative* solutions. Thomas Paine was likely more correct than not when he speculated,

This is supposing the present race of kings in the world to have had an honorable origin; whereas it is more than probable, that could we take off the dark covering of antiquity, and trace them to their first rise, that we should find the first [kings] nothing better than the principal ruffian of some restless gang, whose savage manners or pre-eminence in subtlety obtained him the title of chief among plunderers [Paine (1776), pg. 261].

His speculation is at least congruent with human nature regarding that special division of labor called 'the ruler'. Once one man invents himself as king, others can think, "Why not me instead?"

The relationship between Duties-to-Self, the satisficing character of human problem-solving,

and sensuous habitual inclinations of emulation has now been set out adequately enough, I think, for purposes of this treatise. Now it is time to apply them to the phenomenon of division of labor in the context of commerce.

#### § 2.4 The Division of Labor Arises from Satisficing Self-interest

We do not know when the division of labor was first invented. Its origins are lost in the fog of prehistory. Nor do we know who invented it; it seems likely it was invented independently many times in many places. Nor do we know when, following its invention, a true economy began. The mere appearance of evidence for the discovery or invention of technical arts does not necessarily imply *specialized* artisans came with it concurrently. An *art* is *the disposition or modification of things by human skill to answer the purpose intended*. A *craft* is *the practice of some special art*. However, the ability to practice an art does not necessarily imply the *specialized* artisan; every BaMbuti man knows how to make bows and arrows but they have no one who is a specialized bow-and-arrow craftsman. Arts and their crafts existed in Neolithic Societies. Durant wrote,

We cannot properly estimate the achievements of prehistoric men, for we must guard against describing their life with imagination that transcends the evidence . . . Even so, the surviving record of Stone Age advances is impressive enough: paleolithic tools, neolithic agriculture, animal breeding, weaving, pottery, building, transport, and medicine . . .

When did the use of metals come to man, and how? Again we do not know; we merely surmise that it came by accident, and we presume, from the absence of earlier remains, that it began towards the end of the Neolithic Age. Dating this end about 4000 B.C., we have a perspective in which the Age of Metals (and of writing and civilization) is a mere six thousand years appended to an Age of Stone lasting at least forty thousand years . . . So young is the subject of our history.

The oldest known metal to be adapted to human use was copper. We find it in a Lake-Dwelling at Robenhausen, Switzerland, ca. 6000 B.C.; in prehistoric Mesopotamia ca. 4500 B.C.; in the Badarian graves of Egypt towards 4000 B.C.; in the ruins of Ur ca. 3100 B.C.; and in the relics of the North American Mound-Builders at an unknown age. The Age of Metals began not with their discovery, but with their transformation to human purpose by fire and working. [Durant (1935), pp. 102-103]

It is not unreasonable to guess that prehistoric metal-working implies prehistoric specialized metal workers, but nonetheless this is merely a guess. The original division of labor and a true economy that depends on it, by practical definition, requires the *specialized* artisan who knows how to do something others do not or is willing to perform some regular labor others are not<sup>9</sup>.

But while we do not know *when* it began, we do know that it *did* begin. The deeper and more fundamental question is: having begun, why did it continue? To examine its causative basis for continuation requires the examination of its relationship with interests. *Interest* is *anticipation of a satisfaction or dissatisfaction combined with a representation of some object of desire*. It seems clear enough that the development of specialized artisans and the continuation of practices of the division of labor this entails would not have happened if there were no interests satisfied by it.

It is not difficult to note four empirical characteristics of the division of labor. The first is a marked increase in the amount of produced economic wealth-assets. Adam Smith described the

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<sup>9</sup> There is evidence of different Stone Age tribes occasionally meeting to barter and exchange various goods. This is commerce, and it is not surprising that different tribal Communities living in different places under different customs and with access to different raw materials might possess different useful commodities. This does not imply local economies existed within any of these tribes. It is an interesting speculation that "international trade" commerce might have predated the invention of economies.

other three in the following way:

This great increase of the quantity of work which, in consequence of the division of labor, the same number of people are capable of performing, is owing to three different circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labor, and enable one man to do the work of many. [Smith (1776), pg. 7]

Smith's three 'circumstances' are explanations for how increase in the quantity of work is effected by division of labor. However, 'increase in the quantity of work' is not the same thing as increase in the amount of wealth-assets. The product of performed work is an economic wealth-asset only if there are one or more people who regard it as something that negates unwealth for themselves or adds to the tangible power of their persons. Such people constitute the *market* for the produce of labor. 'Increase in the quantity of work performed' has a *value* Relation to the interests of the workers only if there is an available market for all that they produce.

More specifically, an ***economic good*** is *any physical object (tangible good), rendered economic service (kinetic intangible good), or capacity for rendering an economic service (potential intangible good) that can be exchanged for something else*. A ***stock-of-goods*** is *a person's store of general economic goods as objects usable for satisfying his occasional human wants and needs*. An ***economic service*** is *the action that a person performs as a means for realizing (making real) an economic good*.

A ***market*** is *the population of people who regard a particular economic good as a wealth-asset and are willing to exchange some part of their own stock-of-goods for it*. These people are said to establish a ***demand*** for a particular economic good. Those people who are willing and able to provide that economic good through commerce are said to establish a ***supply*** of that good. The actual *Existenz* of demand for a particular economic good is what makes that good a wealth-asset<sup>10</sup>. Here the terms 'supply' and 'demand' are used in the same technical connotation of economics that is used by Bannock *et al.* (2003) and are explained in the glossary.

The actual *Existenz* of a market is an incentive for a person to be a supplier of its economic good if that person thinks that by doing so he will effect a benefit in his personal pursuit of happiness. Sometimes his *concept* of such a market can likewise be an incentive for this if he merely thinks the *possibility* of a market exists for an economic good he might become a supplier of, and thereby effect a benefit in his pursuit of happiness. In either case, when a person makes this an incentive that incentive is made a ground for his undertaking of an economic enterprise. An ***enterprise*** is *any undertaking actualized by an individual for reasons grounded in duties to himself or Duties to himself reciprocally with others to whom he has bound himself by Obligation*. An ***economic enterprise*** is *an enterprise carried out for the purpose of obtaining a revenue income of economic wealth-assets*. A person undertaking any economic enterprise is an ***entrepreneur***, i.e., *a person undertaking personal enterprise activity for the purpose of satisfying a Duty-to-himself in regard to the tangible power of his person*. With the establishment of the division of labor, specialized enterprises become possible and, thus, the birth of the entrepreneur-

<sup>10</sup> Mathematical economics defines a 'market' differently. Its technical definition of 'market' is 'a collection of homogeneous transactions' [Bannock *et al.* (2003)]. This definition is actually a description derived from the actions of buyers and sellers in a traditional marketplace and *presumes* the 'homogeneous transactions' taking place are human transactions (otherwise, bees pollinating flowers would also be a 'market'). In a social-natural science, all causative explanations must place human beings, as the 'social atoms' of the science, at the root. The Critical *Realerklärung* (real-explanation) I provide here does that for the concept of a 'market.' This real-explanation also differs from the legal definition of 'market' [Bealey (1999)] and from the usual business description of a 'market' ('a collection of selling opportunities').

specialist and the establishment of division of labor are concurrent.

These real-explanations for enterprise and entrepreneur run contrary to the non-technical use of these terms prevalent today. In that usage these words are used as labels to denote capitalist entrepreneurs who establish business Enterprises<sup>11</sup>; the labels are usually denied to the people who work in such establishments. This common usage convention of language is, however, nothing but a manifestation of Adams' "passion for distinction." In particular, most usages of these terms are products of the passion of vanity. A twelve-year-old paperboy is just as much an entrepreneur as Warren Buffet; the only difference is the scale of his enterprise. Furthermore, if he deposits some amount of his income revenue from his paper carrying in a savings account, he is a *capitalist entrepreneur*. Only the scale of his capitalism distinguishes him from Warren Buffet, and this is a mere mathematical distinction, not a real distinction.

An entrepreneur undertakes his personal economic enterprise in order to satisfy one or more of his Self-interests. The satisfaction is his goal but he must also conceptualize means by which he can achieve his goal. The objects of these concepts are, likewise, *made* Self-interests in his determinations of his actions. Here, however, there enters into consideration the satisficing nature of human judgmentation. This nature means that his *made* interests are *satisficing* Self-interests, i.e., objective concepts judged to be interests by his process of reflective judgment. Therefore, his judgments of interests are inherently subjective judgments regardless of the objectivity of his specific plans and actions. If action-determinations were purely objective in his determinations, no plan would ever fail to achieve its goal. All future-directed actions are undertaken in the teeth of the empirical – and therefore contingent – character of sensible Nature. This means that future-directed judgments of them can *only* be made from merely *subjectively* sufficient grounds. Judgments of the efficacy or expedience of the division of labor are all judgments of this type. They are judgments of uncertain *means* for how one might satisfy one's interests.

This subjectivity in individuals' pursuits of their own satisficing Self-interests introduces a number of challenges and possible variations in economic commerce because every commercial transaction always involves a minimum of two people; namely, a buyer and a seller. In general the interests of these two are not the same, nor are their determinations of means for serving their interests. The spectrum of possible interactions between them therefore ranges from the extreme of state-of-nature interactions on one side to interactions fully moderated by social contract terms and conditions of civil liberties on the other. To properly understand this one needs to understand the distinctions between freedom, liberty, natural liberty, and civil liberty. This understanding leads directly to the real-explanation of free enterprise in the next section.

The division of labor makes issues of natural vs. civil liberties issues of central importance in a Society. This is because when division of labor is effected in a Society its members no longer have to labor in order to immediately and personally provide themselves with *all* the necessities of immediate consumption. A significant portion of these necessities are provided instead by commerce. One need not, for example, grow or hunt one's consumable stock of food; instead food can be purchased at a grocery store. The individual's labor need only secure for him a sufficient revenue of economic goods that he can exchange for food. In between the time he receives this revenue and the time he exchanges it for food, this revenue is called his *savings revenue* because he does not immediately consume the economic goods that make it up. The revenue of food or other consumable goods he receives when he makes the exchange is called his *consumption revenue*. Economic transactions involve transformations of revenues from one kind to another.

The condition that grounds the possibility of commerce is that the differing interests of the

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<sup>11</sup> An *Enterprise* is the common Object of all the individual instantiations of personal enterprises carried out by a group of people associated with each other in a united Community.

people involved in commercial transactions with one another are ***congruent interests***. An interest of a person A and an interest of a person B are said to be congruent interests if and only if a satisfaction of interest by either person does not necessarily prevent the satisfaction of interest by the other person. The fundamental issue and challenge in every institution of commerce subsists in the issues and challenges of finding ways and means by which the special satisficing Self-interests of different people can be reconciled to produce congruent interests. Finding these ways and means requires clear and crisp understanding of the ideas of freedom and liberty.

### § 3. The Real-explanation of Free Enterprise

***Freedom*** is the capacity for one's Self-determination to take action. This is to say that each person is himself the original cause of his own actions. *Psychological* causality is the causality of freedom. Freedom is an *inalienable* part of the *homo noumenal* character of being-a-human-being. It is very important to distinguish this from liberty. ***Liberty*** is *freedom plus the ability to realize* (make actual) *the action undertaken*. There are two types of liberty. ***Natural liberty*** is *liberty such that the ability to realize the undertaking of an action is constrained only by physical laws of Nature*. ***Civil liberty*** is *liberty bound by deontological Obligation to participate as a citizen in a civil Community*. All civil liberties are natural liberties that are *unalienated* under the terms and conditions of a social contract. All social contracts demand that individuals alienate (give up) the exercise of some of their natural liberties in exchange for *civil rights* the Community guarantees to preserve and protect with all its common force for each citizen.

As I said earlier, in any transaction between two people there is a spectrum of possible conditions ranging from a state-of-nature environment on the one side to a civic environment on the other. At the state-of-nature end of the spectrum people are constrained only by capacities of their natural liberties. Because commerce is the reciprocal exchange of wealth-assets, commerce can appear in a state-of-nature only if *both* parties choose to *make* such an exchange. However, this is in no way guaranteed to happen in a state-of-nature because either party can choose to exercise his natural liberty to use force or cleverness to obtain what the other person has without providing anything in exchange. At the civic end of the spectrum the actions of both parties are constrained by a deontological Duty to employ only those liberties which are civil liberties. However, such Duties are always ideas of *social* Duties conceptualized in individuals' manifolds of concepts. If the attending special interests of both parties are not congruent interests, conflicts of interests occur. Such conflicts provoke disturbances to equilibrium and if ways are not found to convert *contradictory* interests into merely *contrary* interests and then reconcile the differences to make them congruent, then each person's obligations to himself govern his actions and therefore threaten to result in the antisocial behaviors characteristic of state-of-nature relationships.

In §1 I called the divers usages of the term 'free enterprise' licentious usages. The discussions and real-explanations just provided in §2 are pertinent for understanding why those usages must properly be called 'licentious'. This is because these real-explanations bring out more clearly the relationship between the traditional usages and the satisficing Self-interests of those who explain 'free enterprise' by those usages. At root, the licentious usages are grounded in users' subjective and ontology-centered moral judgments of how they think commerce "ought to be conducted." Any time anyone says something "ought to be" this or that, he is making a moral statement that expresses characteristics of his private and personal moral code he has constructed in his practical manifold of rules.

However, all premises of all ontology-centered ethics hold no objective validity capable of commanding agreement by *all* people. Put another way, ontology-centered ethics are subjective; they are held-to-be valid by the individual but are not necessarily held-to-be-valid by others. There are many people who do not agree with the moral premises implied by the licentious

usages of 'commerce' and 'free enterprise'; indeed, their opinions are sometimes in direct conflict with the licentious opinions. This is one reason why debates and political disagreements over 'free enterprise' often turn rancorous or even violent; because no person can gainsay the practical rules of his practical 'moral code' and every person *will* react to situations that gainsay these rules. Any individual is capable of making accommodations based on experience to his own moral code; it is by such accommodations that *social* mores emerge, reciprocal Obligations are established, and a Society itself is made possible.

Without this capacity people would be as asocial as leopards because human beings have *no* innate "social instinct." *Cooperation* among human beings arises out of the dynamics of *competition* between human beings provided that some particular conditions exist in their social environment. This conclusion is a *theorem* of social-natural sociology called *Grossberg's theorem* [Grossberg (1978); (1980)]. That human beings have no innate social instinct can be appreciated by the simple observation that if such an instinct did exist then the phenomenon of *antisocial* behavior would not be possible. As Aristotle said, "nothing that exists by nature can form a habit contrary to its nature." Yet *all* people exhibit antisocial behaviors from time to time. This is why we always find it necessary to *socialize* children. In regard to commerce, the particular conditions for cooperation are at root those which produce ways and means of finding congruent interests.

Commerce is one of the most important dynamics in any large Society. If any Society hopes to establish and maintain socially robust commerce, it must predicate its actions and understandings of it on the basis of objectively valid social-natural grounds. When moral judgments become involved in commerce – as they always do because commercial experience directly affects Duties to Self – these judgments must be *deontological* (i.e., epistemology-centered). Otherwise the anti-social behaviors favored by Self-interests and competition will in time provoke people to form and act upon maxims of prudence in a state-of-nature environment. When such maxims become the dominant form of socio-economic interactions, the Society breaks down; and if the situation persists long enough the Society disintegrates and state-of-nature circumstances resume. And this brings us to the Critical real-explanation of 'free enterprise'.

***Free enterprise*** is a *personal enterprise* or an *Enterprise* conducted within a civil Community with a relationship to the social contract of that Community. Because free enterprise is always conducted with some relationship to a social contract, there are two forms of it. ***Civic free enterprise*** is *free enterprise* in which the enterprising agent or agents demand and accept the protections and civil rights of the Community and in exchange commit to social Obligations and reciprocal Duties of citizenship it pledges to that Community. ***Uncivic free enterprise*** is *free enterprise* in which the enterprising agent or agents demand and accept the protections and civil rights of the Community but either refuse to pledge commitment to reciprocal social Obligations and Duties of citizenship under the social contract of the Community or breach or violate the terms of the social contract by acts of commission in violation of the social contract or by acts of omission in failing to fulfill civic Duties that the social contract requires to be pledged. Civic free enterprise is congruent with Order and Progress in a free Society. Uncivic free enterprise is harmful to both Order and Progress in a Society and threatens the Society's very survival.

There has never been a human Society in which perfect civic free enterprise is exhibited but there are some Societies in which it is more predominantly exhibited than are actions of uncivic free enterprise. BaMbuti Society is an example of this. American colonial Society prior to the American Economy Revolution from 1750 to 1800 [Wells (2013), chap. 5] is another example of a Society in which civic free enterprise was more predominant than was uncivic free enterprise (with some particularly notable exceptions<sup>12</sup>). After the Economy Revolution conditions evolved

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<sup>12</sup> One of these exceptions was the institution of slavery, which was originally a British import. Colonial institution of indentured servitude was, in the main, civic free enterprise but did have exhibitions of uncivic



little by little to produce an economic environment becoming more dominated by uncivic free enterprise. But, despite the fact that pure forms of either civic nor uncivic free enterprise are not found in past or present Societies, these two ideas provide us with useful models from which to examine real economies and institute socio-economic changes. They function as ideals.

This, indeed, is the principal aim and thesis of this treatise. The United States today, while we still find numerous examples of civic free enterprise, is vitally affected to our detriment by widespread exhibitions of uncivic free enterprise. My aim in this treatise is to make the case for civic free enterprise, to show why it is essential for the security and survival of the American Republic, and to argue for the justice of legal prohibition of uncivic free enterprise practices.

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