

## Chapter 6 The Social Contract of an Enterprise, Part II

### § 1. Non-member Stakeholders and *Obligatio* Transactions

Social and economic interrelationships between the members of a business entity and its non-member stakeholders have consequences pertaining to its success or failure as surely as the relationships among its internal members do. Table I presents again the previous table of stakeholders introduced in chapter 5. This chapter discusses social contracting issues pertinent to the relationships between an Enterprise as a corporate person and its external stakeholders.

In most instances, classifications of member and non-member stakeholders are fairly obvious but this is sometimes not the case. The most frequent case in which ambiguity is found occurs when an industrial conglomerate is what is known as a mutual company or a cooperative. Examples of this kind occur in mutual insurance companies as well as in credit unions and some other non-stock corporations. The ambiguity occurs because conglomerates of these kinds are said to be owned by those who use its services – i.e., by its customers. For example, a mutual insurance company is said to be owned by the policyholders. It does not issue stock shares but its policyholders hold memberships in the company and receive dividend payments based on the company's profits. The company is legally regarded as a not-for-profit organization. Credit unions are said to be owned by the depositors or, more generally, by those who have accounts with the credit union. In this treatise, I classify mutual companies/cooperatives in the 'employer partnering capitalists' category (table II) and regard them as having no 'customers' because their 'customers' are all 'members' of the association. It is sometimes said that industrial conglomerates of this kind 'have no capitalization' but this is erroneous. The conglomerate draws its capital from what its members pay in exchange for its services. It is in a few ways similar to a cottage industry<sup>1</sup>.

**Table I**  
**Stakeholders in an industrial conglomerate**

<b>stakeholder mini-Society</b>	<b>member of the association?</b>
proprietor capitalists (if any)	YES
non-proprietor shareholder capitalist entrepreneurs (if any)	YES
entrepreneurs in its Labor group	YES
creditors and lessors (includes retirees)	NO
suppliers	NO
customers	NO
government(s) of parent Society or Societies	NO

<sup>1</sup> As I said earlier, the collection of different species of commercial entities in the U.S. that has evolved over time makes up a veritable zoo of commercial innovations.

**Table II**  
**Logical Classifications of Business Categories**

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<b>nonemployer sole proprietor-capitalist</b>
<b>employer sole proprietor-capitalist</b>
<b>nonemployer partnering capitalists</b>
<b>employer partnering capitalists</b> <b>(including mutual companies/cooperatives)</b>
<b>close corporation partnering capitalists</b>
<b>publicly traded corporations</b>
<b>publicly traded partnerships</b>

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With this special case noted, the first question that must be asked is: What deontological grounds, if any, exist for identifying *any* social contracting principles that might pertain between member and non-member stakeholders in an Enterprise? The question is one that has become, in my opinion, more urgent over the past three decades. The reason I think so comes from my observations of what appear to be: (i) higher volumes of deceptive advertising; (ii) increases in numbers of cases of industrial conglomerates or government agencies (e.g., universities) reneging on retirement or health care benefits originally offered to persuade recruits to accept employment offers<sup>2</sup>; and (iii) more frequent behaviors expressed by more present-day manager-rulers of conglomerates exhibiting a maxim of regarding themselves as not being bound by commitments made by previous managers. Such actions are examples of practices destructive to the Union of a Society because they eat away at social mores and folkways as non-legislative powers to preserve that Union, and they promote formation of state-of-nature relationships among the people of a Society which, in turn, tends to produce an economic predator-and-prey culture.

This is a question that seems to have received little scientific study. It is one some people hold to co-involve issues of the justifiable regulation of conducts by means of societal laws and legal coercion; others hold these issues to be unfit for regulation either by laws or through the coercions of custom. Difficulties of the most vexing sort arise in both arguments [Mill (1859), pp. 79-88; Weber (1922), vol. I, pt. 2, pp. 311-315, 333-337]. These vexations arise in part because of an habitual inclination many people develop in which they overgeneralize concrete principles and thereby create empty abstractions lacking key contextual connections of real significance<sup>3</sup>.

The specific real contexts in which the question is pertinent are contexts of commerce and economy involving objects of commercial exchanges. In an economy one finds many transactions

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<sup>2</sup> The conglomerates which have engaged in practices like these usually do so legally because they include a clause in employment contracts stating that the management of the entity can change the terms of, e.g., retirement benefits or insurance benefits unilaterally (without the consent of employees). This practice is, as I just said, quite legal. But deontologically it is a moral transgression – at best a moral fault, at worst a moral crime. In other words, the practices are legal but are deontologically unjust because the employee or retiree has already rendered his enterprise services before the reduction in benefits was enacted.

<sup>3</sup> The development of this inclination is usually first observable in the socialization of teenage boys and exhibits as expressions of interest in rule-making for the sake of rule-making [Piaget (1932), pp. 47-50].

of commerce that are not concluded immediately by joint exchange of wealth-assets. Lending and borrowing is one such example: the loaned wealth-assets are handed over first and the debt rental and return of capital are paid later. Frequently many exchanges of services for fees are transacted similarly, i.e., the service provider provides the offered service and then bills the person for payment for that service at a later date. Sometimes this order is reversed: the buyer of the service pays for it in advance of its performance and the service itself is provided at a later time.

All cases such as these are cases of commerce transacted by *obligatio*, i.e., by exchange based on a *pledge* made by one of the parties to fulfill his obligation entered into in the transaction at a later time. For example: a boy offers to mow your lawn for a specified fee; you accept his offer; he then mows your lawn; you then pay him the fee you promised to pay. Almost all transactions conducted by business operations involving non-member stakeholders are transacted under these sorts of circumstances. The simplest kinds of over-the-counter retail transactions are exceptions to this, but these kinds of transactions make up only a fraction of all commercial transactions. Deontological conditions involving non-member stakeholder circumstances pertain to **transaction by obligatio**.<sup>4</sup>

From this it follows that the social contracting principles we seek are principles pertaining to *obligatio externa*, *obligatio interior*, and *obligatione externa*. Furthermore, because *obligatio* and *obligatione* are Objects belonging to deontological ethics, these principles are principles of *justice* and not principles of legislated law. This difference goes to the core of the difference between a Society's justice system (if it has one; if it does not this is a defect in its institution of government) vs. its legal system. The latter is nothing more than the specific mechanisms of governance instituted for the purpose of serving the former. Without the former the latter has no civil ground<sup>5</sup>. To seek principles pertaining to the circumstances of non-member stakeholders in a Republic, it seems the wisest course to follow Aristotle's *dictum* and begin by examining the specific nature of *obligatio* as this pertains to commercial relationships of civic free enterprise.

## § 2. The Circumstances of Creditors and Lessors

Lending and leasing transactions are always transacted by *obligatio*. Capital assets are always transferred to the borrower or lessee by the creditor or lessor with expectations for rent payments for use of the capital asset and return of the capital asset to the creditor or lessor at some later specified time. The creditor or lessor always faces some risk of the loss of his capital, in whole or in part, during this extended transaction. For this reason, collateral items of property are usually demanded by a creditor as a surety for the loan. As part of the transaction, the borrower is required to grant a warrant<sup>6</sup> to the creditor by which, during the extended period of the transaction, the borrower temporarily alienates some of his particular civil liberties of action and property rights. By granting the warrant, the borrower takes on an *obligatione externa* to meet the terms of the loan or suffer foreclosure and loss of specified collateral.

<sup>4</sup> There are, of course, outlaw and criminal behaviors committed from time to time under what would normally be over-the-counter commerce. Shoplifting is an example. However, these circumstances are properly regarded as violations of the general Society's social contract (law-breaking) rather than as those deontological circumstances peculiar to commerce between member and non-member stakeholders.

<sup>5</sup> The definition of the term 'justice' given in *Black's Law Dictionary* is objectively erroneous. It is defined as 'the fair and proper administration of laws.' This so-called definition confounds the idea of 'law' with the idea of 'justice' and leaves undetermined what constitutes the concept of 'fair and proper.' Justice has no real meaning outside of the context of a social contract. Furthermore, U.S. laws that are unjust under the social contract of a Republic do exist, a fact that shows there is a fundamental self-contradiction in *Black's* definition. This fundamental deontological error in *Black's* definition is the reason the United States has a legal system but does not have a justice system. *Black's* does not try to define either of the latter terms.

<sup>6</sup> A warrant is a legal permission to carry out some action. Liberty to foreclose is granted by a warrant.

An *obligatio* is a pledging, i.e., the binding of oneself to fulfill an obligation to do what one has pledged to do. However, because all obligations are self-made by means of specific acts of practical judgment, when a person *expresses* a pledge to another person, the latter has no way of knowing whether or not the pledger has actually made the mental constructions within and to his manifold of rules by which he *necessitates* himself to act according to practical maxims for actually doing what he has pledged to do. It is a fact that sometimes people tell lies and have no actual intention of doing what they say they will do. It is also a fact that sometimes people do not lie about their intentions when expressing a pledge. The creditor in a loan transaction has no way to be certain beyond a reasonable doubt which situation he faces. He must base his actions solely on his judgment as to whether or not to trust the other person. Indeed, the first definition of 'credit' in *Black's Law Dictionary* is "belief; trust" [Garner (2011)].

If the creditor "credits" the borrower's pledging and agrees to the transaction, and then the borrower subsequently proves to have given a false pledge, in almost every case the creditor will regard such a false pledging as an immoral action. This judgment is synthesized according to the creditor's private moral code he has self-constructed over the years of his life in his manifold of practical rules. He regards the pledge as an expression of a theoretically categorical imperative. The borrower, on the other hand, might not regard it as such; indeed, he whom we commonly call a "dishonest person" almost certainly does not. To him, his false pledging is not held-to-be an immoral act *because he is able to carry out this action* – which means that expressing the pledge is an action not-contradicting the legislation of his manifold of rules; it therefore *cannot violate his* personal moral code. Personal *Moralität* is subjective and, as such, cannot be an *objective* basis for social mores or legislated laws governing civic free enterprise. What, then, *can* be an objective basis? If no such basis can be found, this would mean that free enterprise is inherently uncivic because in this case there would be no grounding for social contracting necessary for the possibility of *civic* free enterprise in transactions by *obligatio*. Because the objective basis and the grounding that we seek cannot be found *subjective* theories of *Moralität* (i.e., consequentialist or virtue ethics), we must seek for it in *deontological* considerations.

Before I dive into this discussion, there is another pertinent viewpoint that must be brought up. The discussion above adopts the viewpoint of a creditor or lessor insofar as he judges *obligatio* in terms of theoretically categorical imperatives. The borrower or lessee also has a viewpoint. It is this: the borrower or lessee is required to voluntarily alienate specific civil liberties and property rights as part of the condition of the transaction. In doing so, *he has an expectation that he will not be hindered by the creditor or lessor in his ability to fulfill his obligation*. If he is so hindered, he will regard the other person as violating a tacit pledge to *not-prevent* him from carrying out his duties under the conditions of the transaction. If the creditor or lessor, as part of the transaction, insists on conditions impossible for the borrower or lessee to fulfill, the creditor's or lessor's action is called a **predatory lending action**. Like a borrower's false pledging, a predatory lending action is an antisocial action which effects an uncivic transaction by *obligatio*.

An anecdote taken from a controversial "self help" book that was a bestseller in the 1970s can serve as an illustration for what I mean by the term 'predatory lending action'. After describing a number of things leading up to the conclusion of the story, the author wrote,

Looking back on that deal now, I realize it was just a matter of at what point the lender decided to show mercy. He had the goodies; the borrower was desperate. He had staying power; the borrower was running out of time. He was intimidating; the borrower was intimidated. It was the old Type Number One's kind of deal: totally one-sided. Believe it or not, he did finally show mercy and we succeeded in closing the loan. I received a nominal fee while being able to observe, at close range, how one of the great Type Number Ones in history operated.

As the professor and I walked out of the building where the closing had taken place, I

told him that the borrower seemed like a "nice guy" and I therefore hoped he would be able to abide by all of the conditions in the loan agreement. The professor replied that that wouldn't be possible. I was puzzled and asked him to explain what he meant by that statement, whereupon he smiled and said, "If you take the trouble to read the loan agreement carefully, you'll see that he was technically in default the moment he signed it." [Ringer (1973), pp. 87-88]

I leave it up to your moral judgment to decide if Ringer's lender "showed mercy" or not.<sup>7</sup>

The deontological basis we seek can pertain to civic free enterprise only if it is one capable of being a foundation upon which conditions can be established for the possibility of satisfying civic special interests of the transacting parties *and* interests common to the general Society which constitutes the socio-economic environment in which transactions by *obligatio* are effected. It is, I think, obvious enough that the two transacting parties both have special interests to be served. But how does a *private* agreement between private parties pertain to any *common* interest of their Society? Consider the following points.

Lending and leasing, like capitalism itself, is an ancient practice<sup>8</sup>. Archeological and historical evidence tell us the practice was going on in Babylonia in the time of Hammurabi (c. 2100 BC). Durant tells us,

Most of the soil [in Babylonia] was tilled by tenants or slaves; some of it by peasant proprietors. . . . The waters of the rising rivers were not allowed to flood the land as in Egypt; on the contrary, every farm was protected from the inundation by ridges of earth . . . The overflow was guided into a complex network of canals, or stored in reservoirs, from which it was sluiced into the fields as needed . . . So watered, the land produced a variety of cereals and pulses, great orchards of fruits and nuts, and above all, the date; from this beneficent concoction of sun and soil the Babylonians made bread, honey, cake and other delicacies . . . From Mesopotamia the grape and the olive were introduced into Greece and Rome and thence into western Europe . . .

Meanwhile others pried into the earth, struck oil, and mined copper, lead, iron, silver, and gold. . . . Textiles were woven of cotton and wool; stuffs were dyed and embroidered with such skill that these tissues became one of the most valued exports of Babylonia . . . Trades multiplied and became diversified and skilled, and as early as Hammurabi industry was organized into guilds (called "tribes") of masters and apprentices. . . . Babylon grew wealthy as the commercial hub of the Near East . . . Countless caravans brought to the bazaars and shops of Babylon the products of half the world. . . . As a result of all this trade Babylon became, under Nebuchadnezzar, a thriving and noisy marketplace, from which the wealthy sought refuge in residential suburbs. . . .

Government in Mesopotamia never succeeded in establishing such economic order as that which the Pharaohs achieved in Egypt. Commerce was harassed with a multiplicity of dangers and tolls . . . These difficult transactions were made easier by a well-developed system of finance. The Babylonians had no coinage, but even before Hammurabi they used – besides barley and corn – ingots of gold and silver as standards of value and mediums of

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<sup>7</sup> Robert J. Ringer is a 'motivational speaker' and an author of some 'self help' books. He is a proponent of the *laissez-faire* doctrine of uncivic free enterprise. To best appreciate his anecdote I quote here, you should read his whole telling of it. I have no way of knowing how much of Ringer's anecdote is factual vs. how much of it might be embellished, but this is irrelevant to my purpose in quoting it here, which is merely to illustrate something of the flavor and appearance of predatory lending actions.

<sup>8</sup> Commercial lending and leasing, because they are part of capitalism, require the stabilizing influences of civilization and, in particular, the protections of social contracting. After the final collapse of the Western Roman Empire and the start of the Dark Ages in Europe, capitalism ceased to exist in Europe until its re-discovery in 15th century England. Feudalism as a social system is always antagonistic to capitalism.

exchange. The metal was unstamped and was weighed at each transaction. The smallest unit of currency was the *shekel* – a half ounce of silver worth from \$40 to \$80 of our contemporary currency; sixty such *shekels* made a *mina*, and sixty *minas* made a talent – from \$159,000 to \$318,000.<sup>9</sup> Loans were made in goods or currency but at a high rate of interest, fixed by the state at 20% *per annum* for loans in money and 33% for loans in kind; even these rates were exceeded by lenders who could hire clever scribes to circumvent the law. There were no banks, but certain powerful families carried on from generation to generation the business of lending money; they dealt also in real estate and financed industrial enterprises; and persons who had funds deposited with such men could pay their obligations by written drafts. . . . It was essentially a commercial civilization. Most of the documents that have come down from it are of a business character – sales, loans, contracts, partnerships, commissions, exchanges, bequests, agreements, promissory notes, and the like. [Durant (1935), pp. 226-229]

Lending and leasing practices have had a very long time to develop and evolve but it would be erroneous to assume this means they evolved continuously. There have been interludes of dark ages and breakdowns of civilizations that for a time annihilated commerce, including financial capitalism, and it is more accurate to say the practices are periodically *rediscovered*, as capitalism itself has been. That the practices of one age and place bear such remarkable resemblance to the practices of other ages and places – disconnected by heritage, custom, or religion – can be seen as a strong empirical clue that these practices are satisficing solutions to similar difficulties of circumstances and reflect the one great common link between all ages and places: human nature with its persistent feature of individuals acting in service of Duties-to-Self and to others within their personal societies.

This commonality ensures common elements of deontological *Moralität* are always principal determiners of the empirical practices that exhibit with such remarkable consistency from century to century. The issue is *not* whether or not the practices are 'moral'. *All* commercial practices people enact are 'moral' (or, at least, not-immoral) within the context of their private moral codes because *it is not possible for a human being to act in contradiction to his private moral code* – his sole arbitrator of 'right' vs. 'wrong', 'good' vs. 'bad' in his self-determination of his actions.<sup>10</sup> The issue is whether or not a Society, through its practical tenets of mores and folkways that reflect its implicit social contracting schemes, is able to meet the ever-present challenge of *minimally* establishing and maintaining sufficient internal Order<sup>11</sup> to preserve itself and ward off Toynbee challenges which constantly threaten it with breakdown and disintegration.

The next point to consider pertains to the participants in transactions by *obligatio*. There are *four* main special circumstances to consider which pertain to whether a participant is a real person (a human being) acting on his own behalf or is the representative of a Community of persons. As there are always two parties minimally participating in any transaction – borrower or lessee and creditor or lessor – their combination gives the four main special cases. When either party is a Community of persons, there are sub-cases to consider as well because a Community of persons can be either a civil Community or a non-civil Community<sup>12</sup>. The former constitutes a corporate person; the latter does not and its internal factions and mini-Societies can affect its external transactions and whether these are conducted as civic or uncivic free enterprise.

<sup>9</sup> I have adjusted Durant's currency figures into 2010-equivalent dollars to account for inflation since 1935.

<sup>10</sup> Individuals can and do reconstruct their private moral codes by adaptation. This is a consequence of the regulation of pure practical Reason by the *practical* categorical imperative governing mental adaptation. Part of the manifestation of this adaptation of the manifold of rules is the phenomenon of socialization.

<sup>11</sup> Order is an Object subsisting in the preservation of the degree of all kinds and amounts of objective good people deem to already actually exist. Progress is an Object subsisting in increasing the kinds and amounts of objective good people deem possible to make actual.

<sup>12</sup> Refer to the glossary for the real-explanations of civil and non-civil Communities.

The general Society regarded in its corporate body politic has general interests in lending and leasing transactions by *obligatio*. These general common interests are seeded by Duties-to-Self that create the personal interests individual participants in the transaction seek to fulfill, so let us start with them. Almost every person living in a Society such as ours finds himself, at some time or another, facing situations in which personal or corporate Progress in relationship to his tangible *Personfähigkeit* is conditioned by his ability or inability to conduct transactions as a borrower or lessee. Social contracts do not guarantee personal Progress *will* be achieved, but do guarantee that every citizen is at civil liberty to *try* to achieve personal Progress by *civic* means.

For example, almost all young people, upon reaching the age of legal majority and starting their independency, do not yet have a stock-of-goods sufficient for independent subsistence. They find it necessary to rent a place to live, to borrow money to cover basic transportation and furnishings costs, &etc. The majority of young people have not yet had the opportunity to acquire a capital stock-of-goods and must rely solely on wage revenue to meet their minimal personal consumption necessities during the first few years of independency. For many people the first decade or so of independency is the time of life when marriages occur and children are begotten. This timeframe is dictated in large part by human physiology as well as by human psychology. If there were no credit and lease transactions their personal situations would often become quite dire through lack of sufficient tangible *Personfähigkeit* to cover consumption spending for basic food, clothing, shelter, and transportation needs. Through credit and lease transactions, the majority of young people are able to satisfy subsistence Duties-to-Self and to others in their personal societies insofar as these can be fulfilled by consumption revenue. Only upon satisfaction of this condition can any Society expect to see its corporate *Personfähigkeit* augmented by the individual *Personfähigkeit* of its newly independent members. As Eric Hoffer put it,

The poor on the borderline of starvation live purposeful lives. To be engaged in a desperate struggle for food and shelter is to be wholly free from a sense of futility. The goals are concrete and immediate. Every meal is a fulfillment; to go to sleep on a full stomach is a triumph; and every windfall is a miracle. What need could they have for "an inspiring super-individual goal which would give meaning and dignity to their lives?" . . . Where people toil from sunrise to sunset for a bare living, they nurse no grievances and dream no dreams. [Hoffer (1951), pp. 27-28]

Every Society is a thing of abstraction; citizenship is a service rendered to that abstraction. The immediate benefit of lending and leasing to Society in the cases where the transactions are made between creditor or lessor and its newest independent members is a benefit that arises from the fact that the individual is thereby able to turn his *natural* liberties of action into civil liberties of action by which Order is maintained and Progress is produced in his Society.

I will emphasize, however, that this consideration goes only so far as to cover the individual's most immediate and concrete Duties-to-Self and his personal society; it does not extend to habits of consumption which are profligate. As Smith wrote,

The man who borrows in order to spend will soon be ruined, and he who lends to him will generally have occasion to repent of his folly. To borrow or to lend for such a purpose, therefore is in all cases, where gross usury is out of the question, contrary to the interests of both parties [Smith (1776), pg. 313].

The circumstances of Society's young and newly independent entrepreneurs and their families has a straightforward extension to the commonwealth of its communities. There are many kinds of public consumption that require greater investment than the community can afford to put up all at once. Examples include hospitals, water treatment plants, sewage systems, and public schools. The needs for these things are more or less immediate but payment for them must be leveled and

spread over an extended period of time because if it is not then at least some members of the community would find themselves unable to fulfill their own immediate Duties-to-Self for want of adequate revenue to do so while also contributing to the *public* consumption. For this reason, municipal bonds – which allows the cost of facilities to be paid in many small increments rather than one or a few large ones – are vital to the commonwealth of most urban communities.

Finally, there is a public interest consideration pertaining to a Society's Progress. This interest is reflected in the U.S. Constitution mandate 'to promote the general welfare'. This promotion has its genesis in creative capacities of individual entrepreneur-innovators. Creative ideas, however, accomplish nothing until put into practice and made actual. Sometimes this means an innovator needs the assistance that lending and leasing provides in order to meet startup costs. As Clason had one of his characters say in his classic 1955 business primer,

Good merchants are an asset to our city and it profits me to aid them to keep trade moving that Babylon be prosperous. [Clason (1955), pg. 80]

To properly understand the point I am making here, one must properly grasp a basic economic fact, namely, that ***wealth-assets are created*** and they are created by entrepreneurial innovation.

Modern economics theory errs in its preoccupation with "scarce resources." One college level economics textbook that was popular in the early 1970s stated,

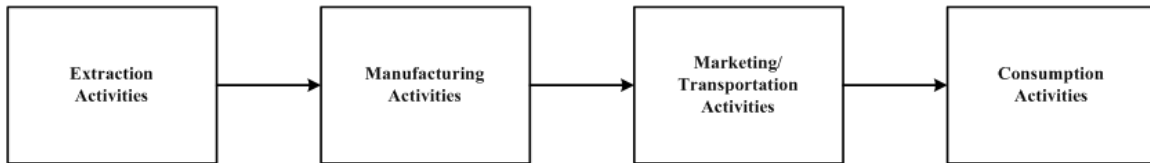
Economics broadly defined is a study of a society's use of its scarce resources with reference to (1) the extent to which they are used, (2) how efficiently they are used, (3) the choice between competing alternative uses, and (4) the nature and consequences of changes in the productive power of the resources over time. [Lipsey & Steiner (1969), pg. 9]

A "scarce resource" means, more or less, "something that is a wealth-asset but is in limited supply such that there is not enough of it for all who would like to possess some of it to be able to." It is true that at any particular time a particular type of wealth-asset might be in limited supply. But if economics is what Lipsey & Steiner said it is, then it is the doctrine of a zero-sum game that overlooks one of the fundamental properties of a wealth-asset – namely, ***all wealth-assets are created by human activity***. A ***wealth-asset*** is *any good for which its use negates unwealth* and ***unwealth*** is *lack of what is practically needed to attain a state of satisfaction*. An economic wealth-asset is *a wealth-asset the use of which further perfects a person's tangible power*. Most people tend to agree, for example, that gold is an economic wealth-asset. But it wasn't one until someone in the remote past *decided* it was a wealth-asset and was able to convince others that it was.

Furthermore, different things can be used to attain the same state of satisfaction because what does or does not satisfy a person is determined solely by that person. Most people regard 'money' as a wealth-asset because of its use as the great lubricant of trade. A gold coin can be used for this application (money as specie) but so can a quantity of silver coins (also specie) or a quantity of dollar bills (fiat currency). In recent years, an Internet entrepreneur invented something called a "bit coin" (another kind of fiat currency), and this new *and completely incorporeal* Object is now likewise used as 'money' in many exchange transactions conducted through the medium of the Internet. Where modern economics theory errs is that its practice assigns to dead-matter Objects a property that in reality is always an exclusively *human* property – namely, the ability to provide satisfaction. The present-day economics idea of a "scarce resource" is an empty Platonic notion from which the doctrine of economics draws many false conclusions because of its attempt to eliminate the social atoms of economics (human beings) from its equations. Economics as a *natural* science can be nothing else than a *social-natural* science grounded in human nature.

All Progress in human history has resulted from the *creation* of wealth-assets that had not previously existed. Consider the economics model of a complete economic transaction (figure 1).





**Figure 1:** Basic economics model of a complete transaction.

At each stage of this model, and within each stage as well, there is a manifold of intermediate transactions conducted, each of which involves objects that are merely *local*-wealth-assets. To a farmer a good tractor and corn seeds are wealth-assets local to his enterprise, but neither of these are wealth-assets to a housewife buying a can of corn at a grocery store. For her the can of corn is the wealth-asset. One can try – as present-day economics doctrine does – to impose mathematical definitions for what is or is not a wealth-asset at some local point of transaction. But the doctrine does this while ignoring the fact that "Society's use of resources" (scarce or otherwise) has no real meaning *except* in contexts of integrated wholes of complete transactions.

In 1955, the lowest-priced computer had a price tag of around two million dollars. In the little town where I was growing up there was not one single computer to be found anywhere. In 1966 there still was not one single computer in the town although the officers of the local bank were trying to decide whether or not the bank should get one [Babcock (1976), pp. xii-xiii]. It is accurate to say computers were not wealth-assets in my town prior to 1966. Today they are but only because after 1966 entrepreneurs invented cheaper computers and commercial software.

Wealth-assets are created by innovations but the innovation of an entrepreneur is not sufficient all by itself to complete the creation of a wealth-asset. Every transaction has a minimum of two persons involved in it, and the act of wealth-asset creation is not complete until some second person decides that the entrepreneur's innovation is something *he* can use to negate unwealth and decides *he* is willing to exchange something from his own stock-of-goods in order to obtain it. Between the innovation and the acceptance there are, most often, some number of intermediate activities in order to be able to complete creation of a wealth-asset. Lending and leasing often fuel wealth-asset creation, and because the creation aids in the achievement of Progress in the general welfare of a Society, Societies in the process of growth and Progress find themselves having a common interest centering on the activities of lending and leasing.

But this entire system collapses if *obligatio* is allowed to become worthless. If this happens then lending and leasing fail for lack of suppliers. The creditor and the lessor constitute special types of merchants on the supply side of Society's common interest. In the words Clason put in the mouth of his moneylender character,

Gold . . . is the merchandise of the lender of money. [Clason (1955), pg. 82]

The system of lending and leasing also collapses if the borrower or lessee suffers too great a loss of his civil liberty of action from the transaction. This occurs if *obligatione externa* is made too onerously burdensome because then credit and lease fail for lack of demanders.

Order is essential for preserving and sustaining any Society because it crumbles from moral secession without it. The secessionists are those members of a Society who suffer loss in the degree of kinds and amounts of good they deem themselves to have had in the past and who judge that the reason is because their Society has broken the pledge to defend and protect their goods with its whole common force. They constitute what Toynbee called a 'proletariat' population<sup>13</sup> "*in* but not *of*" that Society [Toynbee (1946), pg. 11fn]. Toynbee proletariat formation begins the

<sup>13</sup> A Toynbee proletariat is not the same thing as a Marxist proletariat.

disintegration process leading to the fall of that Society [*ibid.*, pg. 77]. The preservation of Order in a Society falls to the Society's institution of government as a public Duty of government. Early in this treatise the question was raised concerning whether government was ever justified in "interfering with free enterprise." The answer is *yes* and the condition for it arises whenever actions undertaken in *uncivic* free enterprise pose a threat to Order in any part of the Society<sup>11</sup>.

The Duty of preserving Order is tasked to government but advances of Progress in the general welfare originate from actions carried out by economic entrepreneurs who produce wealth-assets. Order and Progress in Society<sup>11</sup> are intrinsically linked in the socio-economic dynamics of all but those Societies Toynbee called "arrested civilizations" [*ibid.*, pp. 164-186]. Even the majority of arrested civilizations historically tend to slide into disorder and disintegration. In this context, something Mill said is quite pertinent to this discussion. He wrote,

[It] is impossible to point out any contrivance in politics or arrangement of social affairs which conduces to Order only or to Progress only; whatever tends to either promotes both . . . [If] we would increase our sum of good, nothing is more indispensable than to take care of what we already have. If we are endeavoring after riches, our very first rule should be not to squander uselessly our existing means. Order, thus considered, is not an additional end to be reconciled with Progress, but a part and means of Progress itself. If a gain in one respect is purchased by a more than equivalent loss in the same or any other, there is not Progress. . . . What is suggested by the term Progress is the idea of moving onward, whereas the meaning of it here is quite as much the prevention of falling back. [Mill (1861), pp. 14-16]

Lending and leasing are indispensable factors necessary for the possibility of general welfare in every great modern Society. But these depend at the roots of their actual *Existenz* upon people fulfilling their pledges of *obligatio externa*. Therefore ***laws for the enforcement of commitments made by obligatio externa are justified under the social contract and pledges so undertaken are to be regarded as pledges made to Society itself*** as a pledgee and interested party. These are the deontological principles we have been seeking in this section.

### § 3. The Circumstances of Suppliers and Customers

The principal differences between supplier stakeholders and creditor/lessor stakeholders are found in the merchandise that is offered in a commercial exchange and in the fact that in the case of a supplier either ownership of the merchandise is transferred from seller to buyer (in the case of an item of property) or else the merchandise is consumed by the buyer and thereafter can no longer be exchanged in a subsequent economic transaction (in the case of an economic service). In contrast, the merchandise is only loaned in the case of the creditor/lessor. ***Merchandise is an item of property or economic service offered by the seller in a commercial exchange.*** The business entity in which the supplier is a non-member stakeholder is regarded as the buyer in the economic exchange and the supplier is regarded as the seller.

Transactions between buyer and seller under these circumstances are mainly by *obligatio*. This is because the reciprocal exchange is usually not effected simultaneously. In a great many cases, the supplier bills the buyer for payment of goods or services either after or before transfer of the merchandise. In the first case, the buyer receives an invoice for payment after receiving the merchandise and delivery of his payment completes the transaction. In the second case, the buyer receives an invoice for payment before receiving the merchandise and the supplier's delivery of the merchandise completes the transaction. Your monthly utility bill is an example of the first kind; FICA (Federal Insurance Contributions Act) withholding from your paycheck is an example of the second kind. If you have a regular subscription to a newspaper or magazine, you probably are asked to pay for that subscription before you receive your newspapers or magazines, and this

too is an example of the second kind. Over-the-counter transactions between buyers and suppliers make up the remaining cases; these are frequently, but not always, non-*obligatio* transactions.

The *obligatio* nature of transactions between a business-entity-as-customer and a supplier tells us that the pertinent deontological principles involved are more or less the same as the previous section. The concept of predatory lending practices does not apply, but in its place is found the concept of a tacit *obligatio* made by the supplier that pledges the merchandise he offers for sale does in actuality have the properties and qualities he represents that it has to the buyer. If I offer to sell you a milk cow, I am pledging to you that what you will get is a healthy milk cow and not a sick hog. Deceptive advertising propaganda representing the merchandise as something other than it is must be regarded as false pledging under the deontological arguments presented earlier and, therefore, must be regarded as uncivic action. It does not speak well of our times that most of what one sees or hears advertised in the U.S. today falls under this characterization. An advertiser as propagandist has many tools at his disposal for misleading buyers. One of the most frequently encountered of these is the deceptive use of statistics. In his 1954 classic, Huff wrote,

Users report 23% fewer cavities with Doakes' toothpaste, the big type says. You could do with twenty-three per cent fewer aches so you read on. The results, you find, come from a reassuringly "independent" laboratory and the account is certified by a certified public accountant. What more do you want?

Yet if you not outstandingly gullible or optimistic, you will recall from experience that one toothpaste is seldom much better than any other. Then how can the Doakes people report such results? Can they get away with telling lies, and in such big type at that? No, and they don't have to. There are easier ways and more effective ones.

The principal joker in this one is the inadequate sample – statistically inadequate, that is; for Doakes' purpose it is just right. That test group of users, you discover by reading the small type, consisted of just a dozen persons. . . . Let any small group of persons keep count of cavities for six months, then switch to Doakes'. One of three things is bound to happen: distinctly more cavities, distinctly fewer, or about the same number. If the first or last of these possibilities occurs, Doakes & Company files the figures (well out of sight somewhere) and tests again. Sooner or later, by the operations of chance, a test group is going to show a big improvement, worthy of a headline and perhaps a whole advertising campaign. This will happen whether they adopt Doakes' or baking soda or just keep on using the same old dentifrice. [Huff (1954), pp. 37-38]

Practices like this have been going on for a very long time. The ancient Roman maxim, *caveat emptor* ("let the buyer beware"), gives one a feel for how long such deceptions have been going on, although it seems very likely that this same sort of consumer prudence had to be practiced in Hammurabi's Babylon. The practice can justly be called ***predatory salesmanship*** because it is used more often with the intent of gaining an advantage over the supplier's competitors than it is to deceive the buyer. After all, if your competitor's product is really no better and no worse than yours, isn't the buyer neither better nor worse off buying from you rather than from him? Yes, you did deceive the customer but isn't it "just a little white lie"? If, *as a buyer*, you don't find this at all comforting, I'll share with you that I don't either. Perhaps you would rather do without the product altogether if it isn't what it is advertised to be; if so, then you do *hold yourself* to be worse off for buying that item or service. Suppliers don't get to decide this. It is as Thoreau wrote:

How can a man be satisfied to entertain an opinion merely, and enjoy *it*? Is there any enjoyment in it if his opinion is that he is aggrieved? If you are cheated out of a single dollar by your neighbor, you do not rest satisfied with knowing that you are cheated, or with saying you are cheated, or even with petitioning him to pay you your due; but you take effectual steps at once to obtain the full amount and see that you are never cheated again. Action from principles – the perception and performance of right – changes things

and relations; it is essentially revolutionary and does not consist wholly with any thing which was. It not only divides states and churches, it divides families; aye, it divides the *individual*, separating the diabolical in him from the divine. [Thoreau (1849), pg. 7]

Predatory salesmanship is the counterpart in this circumstance to predatory lending practices in the previous circumstance. The fact that it has been a tolerated practice of uncivic free enterprise for centuries is irrelevant to the issue at hand; it has no place in civic free enterprise.

The circumstance of the customer-as-stakeholder is precisely the same as this except for one obvious change. In this circumstance, the business entity is in the role of seller and its external customers are in the role of buyers. The foregoing principles are unchanged; only the identities of the parties involved are swapped and 'predatory buyer-ship' is much more rare (but does exist).

#### § 4. The Circumstances of the Government as Stakeholder

The political government of a Republic, at every level of government, is established for the purpose of serving citizens of the Republic. It does so through actions of its agents to maintain, enforce, and perfect the implementation of the Republic's social contract. In the establishment of the United States' Republic in 1789, these Duties of government were spelled out in the U.S. Constitution as six general objectives of government at all levels of government:

1. to form a more perfect Union;
2. to establish justice;
3. to insure domestic tranquility;
4. to provide for the common defense;
5. to promote the general Welfare; and
6. to secure the blessings of liberty to ourselves and our posterity.

A Republic has no rulers save for the citizens themselves acting in concert as the Sovereign of the nation [Rousseau (1762), pp. 16-18]. Agents of government are public servants, never public masters, and the socio-political environment of the United States at the time the Constitution was put into effect was one where, as Tocqueville later observed, "the office might be powerful and the officer insignificant" [Tocqueville (1836), pg. 71]. The Republican system was maintained in the United States for nearly forty years after the Constitution went into effect until the formation of national political parties, beginning with Andrew Jackson's Democratic Party in the 1820s, who began the overthrow of the country's Republican principles, established political rulership, and perverted the U.S. institution of government by turning it into a representative (non-consensus) democracy<sup>14</sup>. Today's Democratic Party and Republican Party are the two most fatal cancers in the American body politic.

Order (preserving the degree of all kinds and amounts of objective good people deem to already actually exist) is a *sine qua non* for the preservation of social Community. It is arguably *the* prime directive for a Republic's political government because it is only government agency which is tasked with maintaining a watchful and attentive eye on the overall state of the Union. In comparison, Progress (increasing the kinds and amounts of objective good people deem possible

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<sup>14</sup> This perversion of government was accelerated by the reforms of the Progressive Education Movement in the early decades of the 20th century. PEM reformers championed something *they* called "democracy"; but what Dewey and other PEM reformers meant by "democracy" was something very different from what typical Americans understand this term to mean. Dewey's model for "democracy" was the rigid monarchy and caste system Plato proposed in his *Politeía* (commonly mistranslated as 'Republic') [Wells (2013)]. As a result of 20th century PEM reforms, American public schools no longer teach the American principles of Republican government, nor the history of its institution, at any level of public schooling or college.

to make actual) is a *sine qua non* for growth and development of civilization and always is produced by innovations of individual persons. But Progress for an individual is not necessarily Progress for a Society overall. If one person's or one party's improvement in private welfare is obtained at the expense of that of others in the Society, who suffer a diminution in their welfare as a result of the former, what we have is **not** Republican Progress.

This is **not** to say personal achievement of improved Welfare by an individual is antisocial; improved *opportunity* to achieve this is one of the fundamental motives for civil association under a social contract. It **is** to say *civic personal Welfare gains are those which are not-contradictory to maintenance of personal Welfare by others in the Community*. It is not Progress if one person's gain *necessarily* comes from another person's loss. **Progress is not contradictory to Order.**

To personal enterprise belongs Progress, but the responsibility for Order in the Community belongs to the agents of Republican government *as a public Duty*. Thomas Paine wrote,

Here then is the origin and rise of government; namely, a mode rendered necessary by the inability of moral virtue to govern the world; here too is the design and end of government, viz. freedom and security. And however our eyes may be dazzled with snow, or our ears deceived by sound; however prejudice may warp our wills, or interest darken our understanding, the simple voice of nature and of reason will say, it is right. [Paine (1776), pg. 253]

This Duty of government agents is not a Duty to ensure equality of outcomes (economic egalitarianism) but rather *to ensure equality of opportunity with security from harm caused by the actions of others*. To strive for perfection of one's tangible *Personfähigkeit* is a *civil liberty*; to be secure in one's tangible *Personfähigkeit* in the face of others' pursuits of happiness is a *civil right*. No citizen is granted a civil right to be made secure from the consequences of *his own* actions; if I make a bad loan to someone or gamble that a high rise hotel in the middle of the Sahara would be a sure money-maker, I harm my own welfare. I am at civil liberty to do so and have no right to call upon everyone else to pay for my mistakes. When the Community accepts me as a citizen, they do not do so in order to add to their own burdens. When I accept citizenship, I do not do so that others might add to mine. Here we encounter a deontological principle of the relationship between liberty and Society that Mill expressed rather well:

The object of this Essay is to assert one very simple principle as entitled to govern absolutely the dealings of society with the individual in the way of compulsion and control, whether the means used be physical force in the form of legal penalties or the moral coercion of public opinion. That principle is, that the sole end for which mankind are warranted, individually or collectively, in interfering with the liberty of action of any of their number is self-protection. That the only purpose for which power can be rightfully exercised over any member of a civilized community against his will is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant. He cannot rightfully be compelled to do or forbear because it will be better for him to do so, because it will make him happier, because, in the opinion of others, to do so would be wise or even right. These are good reasons for remonstrating with him, or reasoning with him, or persuading him, or entreating him, but not for compelling him or visiting him with any evil in case he do otherwise. To justify that, the conduct from which it is desired to deter him must be calculated to do evil to someone else. The only part of the conduct of anyone for which he is amenable to society is that which concerns others. In the part which merely concerns himself, over his own body and mind, the individual is sovereign. [Mill (1859), pg. 8]

Laws and policies of economic egalitarianism are violations of the American social contract and therefore unjust. It is equally unjust when agents of government overlook uncivic exercises of

natural liberties by some that result in depriving others of such states of welfare as they already had. The first case is a deontological moral transgression of *commission* by government agents, the second a moral transgression of *omission*. The Democratic Party has earned a reputation for committing the first transgression, the Republican Party for committing the second (although both in fact do both continually). In the first case, agents of government hurt you; in the second, agents of government empower someone else to hurt you. Both cases are breaches of the social contract and derelictions of Duty by agents of government.

The challenge confronting agents of Republican government in finding a proper balance between maintaining Order in Society while not-hindering Progress is formidable. The challenge goes to the core of two of the six fundamental objectives of government: (i) to ensure domestic tranquility, and (ii) to promote the general Welfare. Correct deontological understanding of these two objectives is not a trivial matter. Even a correct understanding of what 'domestic tranquility' and 'the general Welfare' mean is technically challenging. I have previously discussed the former in Wells (2010), chapter 6, and the latter in Wells (2010), chapter 7. Because these discussions are not brief and because they pertain more immediately to the theory of social-natural political science than to the theory of civic free enterprise, I refer you to this source for those detailed explanations. What is pertinent to the topic of this treatise can be summarized in the following points.

First, government (in the persons of agents of government) is a non-member stakeholder in every industrial conglomerate because of the Duties of government in regard to insuring domestic tranquility and to promoting the general Welfare. Individual entrepreneurs (regardless of their specific enterprises and their means of obtaining revenue income) cannot be expected to know all the relevant facts and understand all the consequences of Society's socio-economic dynamic, and so cannot be competent judges of where the boundaries of civil liberty end and uncivil natural liberty begin. Furthermore, individual entrepreneurs cannot avoid being confronted with conflicts of interest between particular liberties that might be exercised in pursuit of individual happiness and their civic responsibilities as citizens of a Republic in "defending and protecting with the whole common force the person and goods of each associate." It is a maxim of governance that

No man is allowed to be a judge in his own cause because his interest would certainly bias his judgment and, not improbably, corrupt his integrity. With equal, nay, with greater reason, a body of men are unfit to be both judges and parties at the same time; yet what are many of the most important acts of legislation but so many judicial determinations, not indeed concerning the rights of single persons but concerning the rights of large bodies of citizens? and what are the different classes of legislators but advocates and parties to the causes which they determine? . . . It is in vain to say that enlightened statesmen will be able to adjust these clashing interests and render them all subservient to the public good. Enlightened statesmen will not always be at the helm; nor, in many cases, can such an adjustment be made at all without taking into view indirect and remote considerations, which will rarely prevail over the immediate interests which one party may find in disregarding the rights of another or the good of the whole. [Hamilton *et al.* (1787-8), no. 10, pp. 54-55]

Agents of government are legitimate stakeholders in every industrial conglomerate because they are the fiduciaries of public Order whose Duties call for their role as judges of: (1) the actions of business entities in relationship to Order in the Republic; and (2) necessity for innovations in or augmentations of public institutions for promoting the general Welfare and insuring domestic tranquility. The often-repeated calls uttered by representatives of business interests that the private sector "be allowed to police itself" is the expression of a policy so unsound at its roots that it can be held-to-be nothing else than: (i) contrary to the social contract of a Republic; and (ii) so imprudent that it puts the civil rights of the civil Association itself at risk.

This point is sufficient to justify governmental regulation of business practices provided this regulation is not-unjust in regard to *civil* liberty of action. Agents of government whose actions are congruent with this limitation on government regulation can never justly be imputed to "interfere" with the exercise of civic free enterprise. But therein also lies another issue, namely, how are the actions of agents of government to be regulated? The agents are not rulers; what, then, are the necessary mechanisms to ensure that, as Madison put it, "the government is obliged to control itself"? A well-founded fear that government will *not* control itself is a legitimate concern of those who do call for the aforementioned "self-policing" policies. It is an issue that cannot be left unaddressed by the institution of government.

It must be admitted that this issue of inadequate government self-control is a clear and present danger in today's governance of the United States and of the individual states. Proposals for mechanisms to remedy this were presented in Wells (2010), chapter 6. They include:

1. institution of a mechanism to effect a process for Petition of Right [*ibid.*, pg. 192];
2. institution of Boards of Right [*ibid.*, pg. 194];
3. institution of means for selecting the agents of these Boards [*ibid.*, pg. 194]; and
4. implementation of a process of mandamus [*ibid.*, pg. 195].

Explanations of these concepts are provided in Wells (2010), chapter 6. Controversies over the issues of legitimate government regulation vs. unwarranted government interference with civic free enterprise can find no remedy without improving the institution of government in the U.S. as this institution pertains to the objective to insure domestic tranquility.

It is not unprecedented for governments to act for the purpose of insuring domestic tranquility and promoting the general Welfare. The purpose is just even if the action itself turns out not to be satisfactory for achieving the aim. A famous example of this was the Speenhamland Law of 1795 in Great Britain [Polanyi (1944), pp. 81-107]. The law was an attempt to respond to social ills that had arisen because of changes in the employment environment that grew out of the British Industrial Revolution. The law turned out to be ill conceived and had unintended consequences of an economically disastrous nature for Great Britain. The British government was Duty-bound to address ill effects on the general Welfare. It failed in its Duty only insofar as it tried to perpetuate a failed law and, eventually, it abandoned its original purpose, leaving the motivating situations in place without redress, when the ill effects of Speenhamland became worse than the ills it was meant to remedy. When Speenhamland was finally repealed, in its place was established the pseudo-Darwinism of *laissez faire* uncivic free enterprise. One uncivic policy was replaced by another uncivic policy. *That* is how the British government failed in its Duty.

Throughout history technological and economic innovations have rendered older traditional occupations of personal enterprise commercially un-fecund. Andrew Carnegie's father's weaving shop in Dunfermline Scotland was unable to profitably compete with the new manufactories and their steam-powered weaving machines, and the family was forced to emigrate to America in 1848 (when Andrew, then called Andra, was twelve years old) [Nasaw (2006), pp. 18-35]. Small independent shoemakers were put out of business by shoe manufactories. The economic growth of many small American towns and cities suffered stagnation after World War II when a flood of new consumer appliances, manufactured by a small number of companies, began draining capital away from their local economies, redirecting its flow into those relatively few centers where the new appliances and consumer products were being produced. Maquoketa, IA, is an example.

It is not the role of government to try to stem or restrict innovations in technology or economics. That would make government a sort of institutionalized Luddite which could do no better than produce an arrested Society with all the mortal weaknesses inherent in such a Society. It is, however, the role of government to make public institutions of an *educational* kind to ease

the transition from one technological/economic environment to another. In the economic balance, *job skill is nothing; capital skill is everything*. Job skills go out of demand when the enterprises they serve become commercially obsolete. Capital skill is the skill necessary for the possibility of new enterprise innovations by which people are able to adapt with the times. ***Government has a Duty to empower every citizen's individual innovation and cultivate his development of capital skills by means of its public education function*** [Wells (2014), chap. 17, pp. 563-573].

Economic egalitarianism, as I said earlier, contradicts the American social contract. However, egalitarian proposals can typically be traced back to another root social issue that also strikes at the fundamental term of the social contract insofar as "each associate, in his corporate capacity, regards every other associate as an indivisible part of their whole body politic." The issue is called "poverty."

This issue is particularly rancorous and by no means confined to the United States. However, all previous attempts to solve this issue have been doomed to failure because no one knows precisely what "poverty" is and there is no consensus on any real-explanation for this word. I put it to you that you cannot know if you've solved a problem if you have no objectively valid concept of what the problem is that you are trying to solve. Much less can you know if this or that proposed remedy for the problem is in fact a remedy or whether it is an impertinent action.

Perhaps you find it surprising that no one has an objectively valid concept of what 'poverty' is. If so, you might wish to ponder the following remarks taken from UNESCO's attempt to define 'poverty':

- "Reducing poverty has become an international concern, yet there is no international consensus on guidelines for measuring poverty."
- "In pure economic terms, income poverty is when a family's income fails to meet a federally established threshold that differs across countries."
- "Today it is widely held that one cannot consider only the economic part of poverty. Poverty is also social, political, and cultural."<sup>15</sup>

To put it bluntly, there is no consensus on how to measure poverty because no one knows what it is they're trying to measure. A definition based on any federally established threshold is nothing else than a definition by mathematical fiat and utterly lacks any objectively valid grounding in human nature – which is something that is always required for any objectively valid social concept. The characterization of poverty as involving economic, social, political, and cultural issues is a strong hint that an understanding of 'poverty' must be sought from an epistemology-centered metaphysic rather than be sought, as past efforts have, from an ontology-centered metaphysic. 'Poverty' as an Object is not a substantial thing; it is a state-of-being<sup>16</sup>.

I think it more likely than not that you would agree with the idea 'poverty' has something to do with persons "not having enough wealth." As said earlier, ***unwealth*** is lack of what is practically needed to attain a state of satisfaction. Now, adjudication of what is or is not a state of unwealth is exhibited by human beings through appetite, which synthesizes impetuous expressions of reflective judgments and practical vetoes of the process of pure practical Reason [Wells (2009), chap. 9]. The net effect of this synthesis is such that all judgments of unwealth are entirely subjective. There is, therefore, *no objective basis for a real-explanation of poverty in terms of tangible objects*. (The same is true of 'wealth' in such contexts as "the rich, the super-rich," etc.;

<sup>15</sup> [www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/poverty/](http://www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/poverty/)  
The quotes were accessed May 18, 2015.

<sup>16</sup> Any metaphysic is nothing more and nothing less than "the way one looks at the world." In regard to the question "what is poverty?" people have been looking at the world from an objectively invalid viewpoint.



this is why people cannot agree on who "the upper class" is, who "the middle class" is, etc.).

Reflective judgment judges only affective perceptions. Practical Reason knows no objects of sensuous Nature and feels no feelings. Poverty is a word carrying a connotation that someone is chronically unable to effect any stable condition of satisfaction because of his situation. It is thus a word descriptive of a state of mind rather than an objectifiable tangible condition. If you think you are living in poverty *then you are* insofar as you understand the world. If you think you are rich *then you are* insofar as you understand the world. There is no objectively valid way to quantify 'poverty' in terms of material Objects of Nature. What *can* be empirically analyzed are socio-economic-political manifestations of lack of domestic tranquility in Society – which is the topic discussed in Wells (2010), chapter 6.

The issues of poverty, social stratification, class divisions, etc. are extensively opined over in books, magazine articles, news reports, and the Internet. What I find when I read and analyze any of these opinions are undefined concepts, bias, and misleading uses of statistics as propaganda in support of one or another political agenda. To put it bluntly, I see nothing there but hogwash and nothing there capable of effecting any real improvement in any person's situation without perpetrating some enormity against some other person or persons. I have no doubt those who are expressing their opinions are honest in their passions; but these passions are grounded in their personal and private moral codes and ontology-centered systems of ethics. No real solutions can ever be effected *with justice for all* by means of institutions so grounded.

Rather, the issue comes down to instituting practical measures to ensure that the government controls itself – in legislations, in legal rulings, and in executive enforcements. It requires a piercing and non-trivial reform in practices of government in pursuit of the objective of insuring domestic tranquility. Such reform will touch all branches of Republican government: judicial, legislative, and executive. Such reform is necessary for the possibility of civic free enterprise.

None of this, however, means by any stretch of implication that entrepreneurs engaged in their private enterprises are at civil liberty to be indifferent to that which perturbs domestic tranquility or saps the general Welfare. The civil Community creates the environment in which they operate and the opportunities for pursuits they choose to follow. The Duty of government to insure domestic tranquility and promote the general Welfare is made a Duty of government *by the common interest all citizens have in these*. Merely not-being a causative agent of domestic unrest or diminution of the general Welfare is not enough. It is also the Duty of a citizen to contribute his part to insuring the former and promoting the latter. By performance of these Duties he also fulfills Duties to himself because, as Ben Franklin is supposed to have said, one does well for himself by doing good for his Community.

In the civil Community that was the Hewlett Packard Company in its first half-century of operation, "citizenship" was one of the Company's seven corporate objectives and part of its corporate social contract. The statement of the objective was: "To meet the obligations of good citizenship by making contributions to the community and to the institutions in our society which generate the environment in which we operate" [Packard (1995), pg. 81]. This was not an empty maxim sitting in a glass display case; it was part of the vitality of the Company culture people at HP called "the HP Way." Packard wrote,

Responsibility to the society in which a company operates is now widely recognized and accepted by American business<sup>17</sup>. But it wasn't always so. I recall a conference I attended in the late 1940s that included people from various industries and organizations. We began talking about whether business had responsibilities beyond making a profit for their shareholders. I expressed my view that we did, that we had important responsibilities to our

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<sup>17</sup> It has to be said Packard was a little short on being right when he made this statement.

employees, to our customers, to our suppliers, and to the welfare of society at large. I was surprised and disappointed that most of the others disagreed with me. They felt their only responsibility was to generate profits for their shareholders. . . .

We have a long history at HP of encouraging our people, as individuals, to participate in projects and organizations aimed at benefiting their local communities or broader society. Bill Hewlett and I began to be involved in activities outside HP as early as 1948 . . . In their local communities, HP people often serve on planning commissions, school boards, transit districts, city councils, and other organizations charged with community responsibility. Some serve as elected officials, others volunteer their expertise. [Packard (1995), pp. 165-172]

The relationships between member stakeholders and non-member stakeholders are reciprocal. What one of them does affects the other of them and vice versa. In the final analysis, government is what the citizens make it and the machinery of government is always worked by individual citizens. As Mill wrote,

Let us remember, then, in the first place that political institutions . . . are the work of men; owe their origin and the whole existence to human will. Men did not wake up on a summer morning and find them sprung up. . . . On the other hand, it is also to be borne in mind that political machinery does not act of itself. As it is first made, so it has to be worked, by men, and even by ordinary men. It needs not their simple acquiescence but their active participation [Mill (1861), pp. 3-4].

This applies as much to mini-Societies at all levels, including commercial mini-Societies, as it does to national, state, and local political government. It necessitates civic reciprocity of Duties among all the stakeholders of that mini-Society.

## § 5. Business Competitors and Business Competition

In addition to their relationships and interdependent interests, the stakeholders in any business entity generally have interests in another non-member group of people; namely, their business competitors. Who is a business competitor what is the mutual Relation that is called business competition? Here are two terms so familiar most people would tend to say "everyone knows what these are." But concepts "everybody knows" and takes for granted often are precisely those concepts found to be sources of error in theories and problem-solving in Societies. An appropriate aphorism would be "things that are taken for granted can't be." And so the questions must be asked and answered with real objective validity.

Concepts of business competition and competitors color every aspect of free enterprise. A review of the licentious usages of "free enterprise" in chapter 1 shows that these concepts appear in every one of them either explicitly or implicitly. It is notable that the term 'competitor' is not given a technical definition or explanation in present day economics theory [Bannock *et al.* (2003)]. It is likewise cautious to note that *Black's Law Dictionary* defines 'competition' as "the struggle for commercial advantage; the effort or action of two or more commercial interests to obtain the same business from third parties." *Black's* does not define 'commercial advantage' or 'commercial interests' although it does define something called 'competitive advantage'.<sup>18</sup> It also does not define 'struggle'. This means that *Black's* presumes and relies on the common dictionary definitions for an understanding of these terms. However, Webster's (1962) and other English language dictionaries explain the key concept in all these terms – namely, the verb 'to compete' –

<sup>18</sup> *Black's* defines 'competitive advantage' as "the potential benefit from information, ideas, or devices that, if kept secret by a business, might be economically exploited to improve the business's market share or to increase its income."

as "to seek or strive to achieve or obtain the same thing as another." The verb 'to strive' is explained as "to make a great effort to achieve or obtain something."

These explanations are riddled with subjectivity. How much effort must you exert before what you are doing is a 'struggle'? How much effort must you put forth before it is a 'great' effort? The concept of 'effort' in this context means the exercise of *Personfähigkeit*. But because it is the individual person who makes this exertion, only he can decide if his effort is 'great' or if it involves a 'struggle'. One cannot erect a natural science on such marshy subjective grounds.

There is also a noticeable flavor of hairy-chested bravado here, as if a person's briefcase was a Viking battleaxe and when he left home in the morning he was headed for the fields of Hastings and not an 8' × 10' cubicle in an office. The language itself displays what John Adams called 'the passion of Vanity' [Adams (1790), pg. 340] and is conducive to uncivic free enterprise. One can see evidence of attitudes reflecting this sort of vanity in many so-called business publications, such as was exhibited by the popularity among American corporate managers thirty years ago of an English language re-publication of Musashi's *The Book of Five Rings* – a re-publication advertised as "the secret of Japanese success in business." What it is in fact is a 17th century samurai warrior's reflections on his *Heiho* ("path to enlightenment") and how it relates to skills on the battlefields of medieval Japan. It is, to say the least, a very strained simile to liken Musashi's reflections on how to kill other samurai in battle to business enterprise. However, if lopping off the head of your business competitor with a samurai sword appeals to you, perhaps you might also wish to consider the tactic of having his salesmen ambushed and killed on the way to their afternoon appointments. Unless, of course, you think all this is the egotistical hogwash that it is.

Critically, *to compete* means *to take action such that the actions of two or more persons are in mutual real opposition (Entgegensetzung) to one another so that the effect of each action wholly or partially negates the effect of the other*. Two persons whose actions compete are called *competitors*. **Business competitors** are two or more sellers attempting to sell to the same buyer in circumstances such that only one of the sellers is able to actually conclude a commercial transaction with the buyer. **Business competition** is the social dynamic of interacting commercial activities carried out by business competitors. These are real-explanations for these terms and are grounded in Critical epistemology. The first term is a practical real-explanation, the other two are empirical explanations *in concreto* in which the first term is applied. The most crucial question in the context of this treatise is: do these terms imply free enterprise must necessarily be uncivic? The answer is 'no', but this requires further explanation.

The majority of events in business competition are non-personal events. What I mean by this is that, although a business entity might have competitors, most of its actions are carried out without the least regard for what competitors are doing or are likely to do in response. If a mattress retailer decides to have a one-day mattress sale, the decision is unlikely to take into account what any other mattress retailer serving the same market might do in response to it.

Of course there are exceptions to this, and some business practices are undertaken with a sort of malice aforethought, such as when one company decides to engage in price-cutting to try to drive one or more competitors out of business. A company might undertake to research specific competitors' weaknesses it might exploit. As a specific example of a quasi-personal competition, about thirty years ago new competitors of the division where I worked had begun experiencing some success in making inroads into a market we had up until then monopolized. We weren't pleased about losing our monopoly situation and so the division's General Manager announced a rather broad business initiative he called "the LOOT campaign." The acronym stood for "Liberate Our Occupied Territories"; the aim of the campaign was to "drive out" our competitors and regain the business of customers we had lost to them. (Are you noticing the warlike flavor of LOOT's rhetoric? I'm fairly sure my Fearless Leader had read his Musashi). We undertook to understand

our specific competitors' strengths and weaknesses, developed a number of tactics to blunt the first and exploit the second, and we ended up being more or less entirely successful in regaining a near-monopoly in that business. If you're wondering, yes, I participated and was one of the LOOTers.

The rhetoric of LOOT was far more warlike and belligerent than any of our competitive actions were. The former served the latter in the same way a pep rally excites the student body before a big game and tries to inspire everyone into putting forth their best *civic* efforts. Nonetheless, unless a company has a strong civic culture and value system, such rhetoric can inspire some people to perpetrate uncivic actions. The character of competition and behaviors of competitors depend in large measure on what individuals think business competition is. Some frequently encountered descriptions of business competition are:

- business competition as a game;
- business competition as a contest;
- business competition as a conflict;
- business competition as a mechanism of resource allocations;
- business competition as an "invisible hand" governing trade practices;
- business competition as an incentive for innovation;
- business competition as the promoter of consumers' sovereignty.

For all the Viking-like militarism of its rhetoric, LOOT program participants regarded it as, and conducted themselves in an atmosphere of, participating in a contest and not a conflict. We thought we were better than our business competitors and we were out to prove it.

What descriptions like the ones above have in common is that they are attempts to understand an intangible thing (competition *per se*) in terms of similes and analogies. They are attempts to put into human terms perceived behaviors and conceptualized characteristics of competitors and consumers in commercial interactions. Except for the last bulleted item above, these descriptions have no direct connections with frameworks of social contracting. The last bullet might sound as if it has such a connection because it contains a concept of "consumers' sovereignty." However, this concept is nothing else than an assertion that consumers' preferences determine the production of goods and services [Hutt (1940)]. This assertion is merely an hypothesis and is one some economists dispute. Rather, they maintain, consumers' sovereignty rarely, if ever, occurs. These economists hold that consumers rarely get what they want; they get what they are offered.

Economists since Adam Smith have described competition in terms of it being a mechanism or process for "allocating production resources to their most highly-valued and efficient uses." This again begs any attempt to define competition *per se* and settles for attempting to describe a putative effect the phenomenon of competition has on the collective behaviors of business entities. Although it might seem surprising, economics textbooks do not actually try to give any definition to the term 'competition'. They take it as an undefined primitive ("everybody knows what competition is") and then use it in analysis of idealized "market models" under divers and more or less accepted (by economists) assumptions, stereotypes, and hypotheses. The four classic "market model" ideals are:

- perfect competition;
- monopoly;
- monopolistic competition;
- oligopoly.

Economists regard these four models as idealizations that do not, or only very rarely, occur in the

real world but which, as mathematical approximations, are useful for making a number of basic characterizations of and drawing logical conclusions about commercial interactions and activities.

It is true enough that the character of competition, so far as events being made personal or non-personal in aim go, depends partly on what economists call the supply and demand characteristics of a market environment. It ranges from being almost completely non-personal in environments economists model as 'perfect competition' and 'monopoly' to sometimes being intensely personal in those modeled as 'monopolistic competition' and 'oligopoly'. Uncivic competitive practices tend to occur more frequently in the latter two environments but one should understand that uncivic practices do not necessarily result merely from market circumstances. It is always the case that there are other factors involved that are independent of market circumstance, and many of these have to do with personal attitudes and learned behaviors.

For example, viewing competition as conflict tends to promote attitudes endorsed by economic pseudo-Darwinism – a pseudo-science of competition based on the proposition business environments are governed by a specious "natural law" of "survival of the fittest." This garbage theory is patently circular: if your enterprise does not go out of business then you are one of the 'fittest'; if it fails then you are not one of the 'fittest' and "destined" not to survive. If you think free enterprise takes place in a state-of-nature jungle where the situation is, metaphorically, "eat or be eaten" then your maxims of Duty-to-Self will place no civic limitations on "what you have to do to survive." The truth is that your "survival" does not depend on whether you are the biggest business-tiger in the jungle but, rather, on the *Personfähigkeit* of the Society you live in.

I think it is not surprising that attempts to make a connection between competition and social contracting is, in the U.S., found only in the study of jurisprudence. It appears there in the legal concept of *fair competition*, i.e., "open, equitable, and just competition between business competitors" [Garner (2011)]. *Black's Law Dictionary* defines the adjective "open" as: (1) manifest; apparent; notorious; (2) visible; exposed to public view; not clandestine; and (3) not closed, settled, fixed, or terminated." (2) is the primary usage in the fair competition context. It defines the adjective "equitable" in this context as "just; consistent with principles of justice and right." This tends to make "equitable" a bit redundant in the fair competition definition. *Black's* defines the adjective "just" as "legally right; lawful; equitable." Unfortunately, it defines "lawful" as "not contrary to law; permitted by law." And this is where American jurisprudence fails to make a real connection between fair competition and the social contract. The concept of "just" has no *real* meaning outside the context of a social contract. Merely because something is permitted by legislated laws, that does not make this something *just*. Something can be legal and unjust at the same time – something that the legal definitions in *Black's* might lead one to believe American legal scholars do not know.

In point of fact, most legal scholars do know this, find the contradiction disturbing, but are uncertain what to do about it. The problem they face is metaphysical. Any metaphysic is nothing else than "the way one looks at the world" and the contradiction is built into the divers ontology-centered metaphysics most people use to look at the world. The contradiction is only resolvable under an epistemology-centered metaphysic, i.e., under Kant's Critical metaphysics.<sup>19</sup>

This is why the Critical real-explanations of business competitors and business competition provided earlier are of major importance for any institution of civic free enterprise. It is extremely rare for any commercial entrepreneur to have no business competitors. The presence of business competition is a circumstance that invariably affects the behaviors and conducts of people in commercial mini-Societies; and *their* behavior and conduct affect the body politic as a whole.

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<sup>19</sup> Metaphysics matters. *Every* human being self-develops a personal metaphysic; it is "how you make sense of the world." The process begins the day you are born and is more or less completed by the time you are in your middle teenage years *unless* you undertake to study and comprehend a *scientific* metaphysic later.

Most of the causal linkages here are remote rather than immediate. This is the character of what I previously called the Enterprise-protein model of a Society's economy.

Of course, these linkages run both ways; the behaviors and conducts of customers affect business competition as well. For instance, the Massachusetts Legislature passes a law declaring that a software product must have specified features in it or government agencies in the state of Massachusetts are forbidden to buy it. As a result, suppliers of that product change it to conform to the Massachusetts law and, just like that, all consumers of that product in every state are forced to put up with those features whether they like them or not. This is a mildly hypothetical case. It is the reason Microsoft Corporation developed the ".docx" file format for Microsoft Word. The only thing that keeps it hypothetical is that they did maintain the older ".doc" file format and consumers have the option to continue to use it. However, Microsoft also made ".docx" the "default" file format with the effect that most users of Microsoft Word "default" to using it, which then forces everyone else to have to deal with it whether they want to or not. Who would guess the Massachusetts Legislature could exercise an influence over all fifty states more powerful than the U.S. general government in Washington DC? But such is the Enterprise-protein dynamic.

Now let us tie all these points together into an explanation of how it is possible for business competition to be congruent with civic free enterprise. The foundation for this explanation is, of course, the Idea of the social contract. It begins with the concept that in a Republic each citizen is at *civil* liberty to pursue the attainment of personal happiness, that there is no guarantee, no civil right, of economic egalitarianism, but there is a limitation to how much tangible *Personfähigkeit* an individual can justly acquire. That limitation is: no individual is at civil liberty to hinder the efforts of others in their personal *civic* pursuits of happiness.

It is this limitation that establishes the idea of *justice* implicit in a concept of fair competition. The present legal concept of this inherits the flaws inherent in regarding a justice system and a legal system as being one and the same thing. Congruence of business competition and justice is to be sought in an adaptation of the legal idea of fair competition to bring to it a real connection with the context of the social contract of a Republic. The required adaptation centers on one key phrase in *Black's* definition: *just* competition.

A competitive action is *not-unjust* if it is not contrary to the Society's social contract. If I carry out my commercial enterprise defectively – i.e., if the way in which I conduct my enterprise is such that I do not achieve an income revenue sufficient for me to sustain it *because* of the way I operate it – and if my defective conduction of its operations is not *caused* by my competitors, then *their* competitive actions are not-unjust. The key determinable in this is bound up in the question of what constitutes a competitive action that *causes* a competitor's business failure.

This is not an easy question to answer with objective validity. Vaguely put, if you and I are business competitors, you see me acting imprudently in my conduct of my business enterprise, and you merely stand passively by and *let* me fail, you have committed no culpable moral transgression. You are under *no* social contract Obligation to help me achieve my business aims. You *are* under a social contract Obligation to not-hinder my efforts and to come to my aid if *others* try to hinder me. You can stand by and *let* me fail because of my own lack of business acumen or professional skill, but you cannot "give me a push" over the edge nor allow others to do so. The former *inaction* is non-predatory; the latter *action* is predatory.

This is a recipe that sounds simple enough but, of course, the simplicity is only a surface appearance. Let us suppose you have an enormous reserve of capital sufficient to allow you to operate without making a profit for a longer time than I could. Suppose you use this difference between your tangible *Personfähigkeit* and mine to cut your selling price for your merchandise in order to force me to cut mine – knowing that I cannot sustain the losses I will incur for as long as you can. *You* didn't cut *my* prices, so are you culpable of any transgression? The deontological

answer here is 'yes, you are' because in this case you caused me to do something to harm myself that I would not have done if you had not taken your action. On the other hand, suppose that *I* cut my prices, hoping to draw enough customers away from you to make up for my per-unit reduction of income revenue. If you *respond* to my action by cutting your prices, knowing you can sustain the reduction longer than I can, then you have committed no culpable fault. When *I* fail it is because of an action *I* took *without* coercion by you. Indeed, sometimes circumstances in our joint business environment might even be such that if you took no counteraction at all *I* would not succeed in garnering enough additional customers to avoid business failure. *My* lack of business acumen isn't *your* fault.

To take a subtler case, suppose you tell potential customers that *my* merchandise is made in a faraway foreign sweatshop by child labor when in fact it is not. Because you do this with the aim of materially impairing my ability to obtain an income revenue, you are in violation of your civic Duty to not-transgress the condition of the social contract; *viz.* you are violating the civil right of every citizen to the defense and protection of his person and goods by the whole common force of the civil association. It is a predatory competitive action for which you are to be held morally culpable. This is a rather bald example of which the Doakes' toothpaste advertising example presented earlier in §3 is a more subtle example.

There is no one-size-fits-all *legal* principle that defines civic vs. uncivic competition, but there is a *social* principle. It is: ***competition is civic and therefore congruent with civic free enterprise if and only if competitors' actions adhere to the general requirements of deontological citizenship.*** This can be called the ***citizenship principle*** of civic free enterprise.

Deontologically, ***citizenship*** is the *actuality of individual actions congruent with conventional general standards of expectations for civic actions*. It is grounded in reciprocal Duties of association. *Real* citizenship is a social dynamic of relationship and subsists only in the practical actions of individuals. Conventional general standards of expectations in a Republic are determinations of societal mores and just laws legislated by authorized institutions. Judgments of whether or not particular actions are congruent with deontological citizenship take for their judicial grounds the general governmental objectives for maintaining Order in regard domestic tranquility and in regard to the general Welfare of the Republic. These were briefly discussed in the previous section.

Deontological citizenship differs from nominal citizenship. Deontological citizenship has real meaning only within the context of a Society's social contract. Nominal citizenship, in contrast, is a matter of legal definition. It is interesting that in the history of the early United States the term "citizen" meant "anyone living in the United States who was not a slave." After the U.S. civil war of 1861-65, this definition was altered by the 14th Amendment to the U.S. Constitution. The revised definition is, "All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside." This nominal definition requires no commitment to any specific Duties other than the implied one that every person in the United States is required to obey the laws of the United States and those of the individual States when a person is present in those States. Because obedience to the laws is a requirement imposed upon non-citizens as well as citizens, this requirement is not a special condition of citizenship.

Whenever anyone speaks of "Duties of a citizen," this phrase has no real meaning except in the context of deontological citizenship. Because no person can *impose* any Duty or Obligation on another person<sup>20</sup>, a Society that recognizes nominal citizenship without also recognizing

<sup>20</sup> One person can coerce another person into doing something or forbearing from doing something. However, acting under coercion is always an act of prudence obedient to practical rules of obligations-to-self, and is never an act of reciprocal *social* obligations. Coercion fails when the power to impose sanctions or

deontological citizenship opens the door to practices of both government and free enterprise in which the power to enforce its laws and regulate commerce is a power based only on coercion. In all such circumstances, the individual self-determines his actions primarily on the basis of maxims of prudence. Maxims of prudence are conditioned only by practical rules, in the manifold of rules, that self-define the individual's Obligations (and therefore Duties) to himself. Such a Society is one in which the bonds holding it together are of the weakest sort. It is from this weakness in its social fabric that uncivic free enterprise springs. Rousseau wrote,

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? . . . For, if force creates right, the effect changes with the cause: every force that is greater than the first succeeds to its right. As soon as it is possible to disobey with impunity, disobedience is legitimate . . . If we must obey perforce, there is no need to obey because we ought; and if we are not forced to obey, 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]

Herein we find the crucial importance of deontological citizenship as a *sine qua non* of civic free enterprise and civic competition; and we also see that its absence is a practical invitation to uncivic competition and uncivic free enterprise.

This is the explanation of why business competition is not in contradiction with civic free enterprise. A legitimate objection can be expected to be raised against this finding. The objection is that in a nation of hundreds of millions of people it is impractical to expect people to embrace the sort of radical reforms in conceptions of citizenship needed to reach the civil conditions of deontological citizenship. Therefore, the argument will go, all of this is mere utopian idealism.

To this I answer: No one should expect centuries-old habits and traditions to be changeable all at once. I do not expect to see institution of civic free enterprise brought about in my remaining lifetime. However, this does not mean the necessary adaptations of Society can *never* occur; "never" is a very long time. As Mill correctly pointed out, part of the Duty of the institution of government is public education – in the present context, citizenship education. I can think of no better way to end this chapter than by repeating what Mill said a century and a half ago:

We have now . . . obtained a foundation for a twofold division of the merit which any set of political institutions can possess. It consists partly of the degree in which they promote the general mental advancement of the community, including under that phrase advancement in intellect, in virtue, and in practical activity and efficiency; and partly of the degree of perfection with which they organize the moral, intellectual, and active worth already existing, so as to operate with the greatest effect on public affairs. A government is to be judged by its action upon men and by its action upon things; by what it makes of the citizens and what it does with them; its tendency to improve or deteriorate the people themselves, and the goodness or badness of the work it performs for them and by means of them. Government is at once a great influence acting on the human mind and a set of organized arrangements for public business . . .

Of the two modes of operation by which a form of government or set of political institutions affects the welfare of the community – its operation as an agency of national education and its arrangements for conducting the collective affairs of the community in the state of education in which they already are – the last evidently varies much less, from difference of country and state of civilization, than the first. It also has much less to do with the fundamental constitution of the government. . . . It is otherwise with that portion of the

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penalties fails, and this fact is manifested in the fall of civilizations from within. Because only the specific person has the power to determine his own manifold of rules, it follows *only* that person can impose any obligations on himself.



interests of the community which relate to the better or worse training of the people themselves. Considered as instrumental to this, institutions need to be radically different according to the state of advancement already reached. [Mill (1861), pp. 20-22]

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