

The Political Forum

*A review of social and political trends and events
impacting the world's financial markets*

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Friday, December 10, 2004

A REPRINT FROM A PIECE PUBLISHED JUNE 12, 1995

DEMOCRACY AND CAPITALISM CAN ALWAYS USE A LITTLE MORAL SUPPORT.

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My colleague Suzanne Harvey, director of the firm's increasingly popular Social Investment Research Service (SIRS), writes in an accompanying article about the growing reluctance among some investors to buy securities in companies that peddle pornography and romanticize violence. As a conservative, I not only favor this specific investor target, but I applaud the entire concept of social investing.

I know some people believe that the efficient allocation of capital is distorted when performance is not the sole investment criterion; that corporate social behavior should have no part of the investment process unless it has a direct and explicit potential earnings impact (if, for example, a cavalier attitude toward legal or regulatory matters portends costly accidents or litigation). I disagree.

People who don't approve of smut and violence on TV, but buy the products of firms that advertise on shows that contain such material, shouldn't be surprised when these shows proliferate. By the same token, investors who buy stock in firms that engage in behavior they consider objectionable shouldn't kid themselves about whether they are a party to the activity.

Money is an enormously powerful tool for both good and evil. Every expenditure is a vote of sorts, and it is my opinion that the social and ethical consequences of these votes should neither be denied nor overlooked, most especially during the present period of accelerated social decay. And anyone who doubts the efficacy of "voting" via the investment process should speak to South Africa's Nelson Mandela.

In the interests of full disclosure, I should admit here that I am not an entirely disinterested party in this matter. We are the nation's only major brokerage firm to have a full service social investment product, and it operates out of the Washington Research office.

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SIRS works with both individual and institutional investors, and provides screens covering issues that concern both conservatives and liberals. I won't detail all the many areas Suzanne's group covers. But among other things, she and her people help investors find firms with both good and bad track records on the environment, women's issues, labor relations, and the treatment of laboratory animals. They can identify firms that have a bad record concerning the Arab boycott of Israel, and as I mentioned above, those that traffic in pornography and violence. Suzanne's group has the capability of tailoring its screens to meet the special needs of PS clients, and will provide help in determining the potential impact on portfolio performance.

Suzanne began SIRS almost a decade ago, and it has been fascinating to watch its rapid demand-driven growth. She estimates that assets under management in the United States based on some form of social criteria are approaching \$500 billion. This growth has roughly paralleled what appears to me to be a rising interest in ethical and moral concerns among a broad cross section of the American public in the past decade.

It is worth noting, that while issues of primary interest to liberals, such as the treatment of minorities in South Africa, dominated the social investing scene just a few years ago, conservatives and religious organizations have made their presence known quite strongly in recent years with requests for information on companies engaged in such activities as gambling, abortion, contraception, alcohol, and of course, pornography.

At the heart of my support for the concept of social investing is my belief that the economic system that we have come to call capitalism is not "good" in and of itself. I believe capitalism is good or bad depending upon the society in which it operates. Thus, in my opinion, any grass roots measure that serves to keep the destructive side of capitalism in check is welcome, even if parts of the package include some nonsense.

This view is contrary to the belief held by many conservatives and libertarians that pure capitalism is such a good thing that it naturally, all by itself, leads to the best result for all individuals and for society as a whole. This idea can be traced, I would guess, to a mistaken interpretation of Adam Smith's "invisible hand" theory. But Smith did not say that society always benefits when an individual pursues his own best interests exclusively, with no regard to the impact on society. What he said was that when an individual pursues his self interest, he "frequently promotes the interest of the society more effectually than when he really intends to promote it."

The fact is that Smith expounded extensively in each of his two major works and in his lectures on jurisprudence on his belief that commercial society cannot thrive in a climate of moral decay. In *The Theory of Moral Sentiments*, for example, Smith maintained that "upon the tolerable observance" of such duties as politeness, justice, trust, chastity and fidelity, "depends the very existence of human society, which would crumble into nothing if mankind were not generally impressed with a reverence for these important rules of conduct." Smith maintained that social order was not spontaneous or automatic, but was founded on institutions that promote self-control, prudence, gratification deferral, respect for the lives and property of others, and some concern for the common good.

This point was also made eloquently by the late German economist and social thinker, Wilhelm Ropke, in his 1971 book, *A Humane Economy*. Ropke, who noted in that same book that "people do not live by cheaper vacuum cleaners alone," put it this way.

Self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms--all of these are things which people must possess before they go to market and compete with each other. These are the indispensable supports which preserve both market and competition from degeneration. Family, church, genuine communities, and tradition are their sources. It is also necessary that people should grow up in conditions which favor such moral convictions, conditions of a natural order, conditions promoting co-operation, respecting tradition, and giving moral support to the individual . . . It is the foundation upon which the ethics of the market economy must rest. It is an order which fosters individual independence and responsibility as much as the public spirit which connects the individual with the community and limits his greed."

In one of my all-time favorite books, *The New Jacobins, Can Democracy Survive?* my good friend, Claus Ryn, a professor of Politics at Catholic University, expounds on this thought, and quite appropriately, I think, adds democracy to the equation.

Critics of capitalism typically identify it with its worst possibilities: ruthless competition, exploitation, greed, crude commercialism, social atomism, etc. These are said to be of the very essence of a free economy. In reality, the prominence of such phenomena is a sign that capitalism is operating within a society in which people lack ethical, aesthetical, and other inhibitions and strong communal ties, a society in which institutional structures do not embody civilized purposes and in which neither supply nor demand recognizes any higher standards. Critics of democracy similarly identify democracy with its worst potentialities: unchecked majoritarianism, political irresponsibility, demagoguery, rule by pandering to the lowest common denominator, etc. Here, too, the alleged essence of the phenomenon in question is how it performs in a society where civilized restraints are weak. Both points of view are unhistorical and reductionistic. In reality, capitalism and democracy have no single definition or 'essence.' They exist only in particular historical manifestations. These can be sharply different depending on the ethical and cultural health of the particular societies in which they operate. They can be compatible with the ends of the good society, in which case their institutions and practices are integral to the structures and practices of civilization. But they can also be destructive of higher values, in which case they manifest the structures and practices of the deteriorating society.

If perchance this little exposition on capitalism and democracy appears to bear no relation to the present day concerns of the financial markets, consider for a moment the widespread and growing conviction in the investment community that the undeniable proliferation of democracy and capitalism around the globe in the wake of the death of Communism in the Soviet Union is an unalloyed good. It is as if everyone has come to believe that now that "the West" is making progress on the Wilsonian dream of "a world safe for Democracy," we are only a short distance away from having a world that is safe for investment.

I am not saying here that this dream is entirely chimerical. I am simply saying that investors should pause to remember when they find themselves becoming giddy about the spread of capitalism and democracy that the soil from which the American versions of these social structures sprung was tenderly nurtured by the descendants of the likes of John Winthrop's Puritans, William Penn's Quakers, and the deeply religious Virginia planters. It is worth considering, I think, that capitalism and democracy springing from different soils may well bear a different, and possibly very bitter, fruit.

A remarkable number of intellectually flabby neo-conservatives on the right and the entire fuzzy-headed neo-Wilsonian Clinton foreign policy team on the left seem to believe that the presence of voting booths and a stock market virtually guarantee that a nation is on the road to becoming "just like us." As the old song goes, "It ain't necessarily so." In fact, there are disturbing signs that some of these nascent democratic, capitalistic societies are not only not going to become "just like us," but may actually serve to speed the United States down the road to becoming more like them, very dirty, both economically and politically.

For example, anyone who is paying attention to what is going on in the world today cannot help but be concerned that the hundreds of millions of dollars generated by the international drug trade present a grave threat to the integrity of free societies everywhere. The fact is that this drug trade is the quintessential example of entrepreneurial capitalism, and it is flourishing in "democracies" throughout the world, including Russia and Mexico.

It isn't necessarily a sign that progress is being made against the international narcotics trafficking when the newspapers are full of stories about the arrest in such places as Mexico and Columbia of old narco thugs, as has been the case recently. It is just as probable that the business is just moving to a better neighborhood, and that the old murderers have simply become an embarrassment to the new proprietors, many of whom were educated at some of the best universities in the world and have learned of better ways than overt violence to gain influence in the societies where they ply their trade.

This growing international drug trade is generating enough money to buy hundreds of judges and senior government officials, not only in their own countries, but in neighboring ones as well; perhaps (one might speculate) even in the good old U. S. of A. It is estimated that worldwide production of opium has increased four-fold since 1980, and there are signs everywhere that the distribution networks for illicit narcotics have become enormously efficient. It is worth noting that some 70% of the cocaine reaching the United States today passes through Mexico.

This point was driven home rather strongly by an editorial in the *Wall Street Journal* last week entitled "The Peso, Drugs and Justice," which included the following items.

- o That one Mario Ruiz Massieu "managed to stash \$8 million-\$10 million in Houston bank accounts, apparently during the nine-month period when he was head of the Attorney General's anti-drug unit."
- o That Mr. Massieu "amid signs he was in bed with the drug cartels, played a crucial part in collapsing the peso and destabilizing Mexico."

o That one Guillermo Gonzalez Calderoni "was a former commander of an elite Mexican federal anti-drug squad, and on a measly federal salary apparently had accumulated assets worth millions, or hundreds of millions."

o That the *Journal* believes "it would help a lot if Mr. Zedillo and Mr. Lozano could make clear they understand their true enemies are the drug lords."

o And that "three of the lawyers named in a Miami indictment earlier this month for illegal acts representing the Calio cartel had earlier in their careers been drug prosecutors for the U.S. Justice Department."

It is, of course, possible to make money investing in countries where the government is profoundly compromised by criminal elements. Indeed, if one is in tight with the thieves and can stomach the process, it is possible to make lots of money in such situations.

But corruption can be highly contagious, and it may well be that the most dangerous enemy to U.S. society in the 21st century, replacing the communist threat of the last half of the 20th century, will be the proliferation of deeply corrupted capitalistic democracies around the world in an era of greater and greater worldwide economic integration.

Like the aging beehive that lost the will to defend itself against the insidious wax moth in Kipling's remarkable short story *The Mother Hive*, the United States could find itself in deep trouble if the "eternal vigilance" about which Jefferson spoke wanes. ("Wax moth only succeed when weak bees let them in . . . that never happens till the stock's weakened.")

And so I return to the opening point of this article. Social investing is not a cure for a sick society, nor will it, by itself, prevent society from becoming sicker. But the presence of large groups of citizens who are willing to forego some return on their savings if necessary to defend a principle or to send a moral message to a corporation that is out of line is a healthy sign that there is still hope for the American form of democratic capitalism, i.e., one that is founded, supported and sustained by a citizenry that is still imbued with a love and respect for Adam Smith's eternal "moral sentiments." Keep up the good work, Suzanne!

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