Two questions business ethicists have come to expect at public presentations, chance meetings and cocktail parties are: (1) Is business ethics a contradiction in terms? and (2) Are business people becoming less ethical? My typical sarcastic response to the first question is that of course business ethics is not a contradiction in terms. There is an ethic for conducting business, many people just don't like it. Amongst academics, however, I refer them to Adam Smith's rarely read, magnificent ethical treatise, *The Theory of Moral Sentiments*, that provides the ethical foundation for capitalist activities (Collins, 1988; Smith 1759/1976; Werhane, 1991).

I struggle much more with the second question—are modern capitalists less ethical, more ethical or about the same as their predecessors? The answer to this question is fraught with measurement problems. How does one measure the ethics of a particular generation? Should it be based on a few prominent people? If so, which ones—the most successful ethical CEOs, the most successful unethical CEOs, a combination of the two? Should the answer be based on a comparison of the number of capitalists who go to jail? Should the answer be based on the number of nonmanagement employees killed due to unsafe working conditions? According to Nicholas von Hoffman's latest book, *Capitalist Fools*, these measurement issues are academic. Beginning with the 1930s, modern capitalists, in comparison to early capitalists, are "less ethical." No ands, ifs or buts. Prominent early capitalists pursued both their self-interests and selfish desires, and social welfare improved. Prominent modern capitalists pursue only their selfish desires, and social welfare has been ruined.

In a typical overstated argument, von Hoffman, who leans much more to the economic right than to the economic left (a former union organizer, but he votes Republican), maintains that (p. 208):
"The rise in the standard of living in the fifty years after 1930 did not come remotely close to the jump forward it had attained in the half century commencing in 1880. If business had been able to continue at the rate it had been going up to 1930, there would be no homeless, there would be no slums, there would be no welfare ghettos, there would be no pollution problem and the national landscape would be greener and happier than most of us now believe it will ever be."

Although von Hoffman places part of the blame of America's gradual economic decline on the interventionist economic policies of President Franklin Roosevelt, he aims his ethical analysis at the behavior of the nation's leading capitalists, particularly CEOs and financial speculators. The modern capitalist standard bearers, who are likely to place the blame on "the unions, the moral fiber of their employees, the Japanese, the Democrats, the Republicans, even welfare mothers," only need to look in the mirror to locate the real culprit. Paraphrasing Woodrow Wilson, von Hoffman notes that "the heads of half the CEOs in America are simply knots tied above the neck to keep their bodies from falling apart" (p. 209). The principles that many CEOs rely on to govern their own organizations include "overstaffing, bureaucracy, sloth, sloppiness, routine, lack of accountability, failure to follow through, waste, rigidity, tunnel vision and an addiction to the use of the hold button" (p. 209). Inch by inch these CEOs are leading the nation to ruin. How can half the CEOs have knots for heads while there are "hundreds of thousands of business executives who do their jobs superlatively well" (dedication page)? This apparent contradiction is just one of many assertions sloppily made by von Hoffman without any empirical evidence.

The name Adam Smith does not appear once in this book. Nonetheless, it is Smith's work on ethics that lurks behind von Hoffman's unsystematic rapid-fire complaints about the current status quo. Smith's ethical treatise, *The Theory of Moral Sentiments*, was published in 1759, seventeen years prior to his economic treatise, *The Wealth of Nations*. Smith, primarily a consequentialist, theorized that, ethically speaking, there were four ways that society could be organized. The four ways appear below. The titles in parentheses represents each path's modern equivalent.

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<th>INDIVIDUAL INTENTIONS</th>
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<td>1) Benefit Others</td>
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<td>3) Benefit Self</td>
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<td>4) Benefit Self</td>
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<td>[Modern Capitalism]</td>
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According to Smith, not all virtues are equal. Benefitting oneself is a lower level virtue in comparison to benefiting others. He maintained that any human action can be broken down into the intention that generated the act, the act itself, and the consequences generated by the act. As such, it is necessary to carefully distinguish between intentions and consequences when discussing the merits of benefiting oneself or others. Smith argued that the social utopians of his day were placing too much ethical emphasis on the evaluation of intentions and not enough on consequences. Although it is noble to have benevolent intentions, history provides an infinite amount of anecdotal and empirical evidence that would lead a reasonable person to conclude that efforts to pursue the first path (communism in theory) inevitably ends up slipping into the second path (communism in practice). Generally speaking, the intent to benefit others is more noble than the intent to benefit oneself. However, this is a moot point if all attempts to design societies in which citizens are coerced into intending to benefit others result in ruining social welfare. The recent experiences of the Soviet Union, Communist China and Cambodia, among other communist experiments, seem to support this claim.

Smith favors a second best strategy. Let citizens do what comes natural to them; that is, let them pursue their self-interests. The challenge for government is to put into place mechanisms that allow the pursuit of self-interest to actually improve social welfare. Indeed, according to Smith, this was theoretically easy for government to achieve because, unintentionally, people's pursuit of self-interest often resulted in social welfare improvements without any input from government whatsoever. Thus, repeal the laws governing mercantilism and let the market spin its magic. Government should intervene in the economic system only when the pursuit of self-interest (1) failed to improve social welfare or (2) generated harms to others (Collins, 1988). If reliance upon the lowest level virtue—self-interested intentions and consequences—has the greatest probability of generating the highest level of virtue—benevolent consequences—then that is how the economic system should be organized.

Would a society of rich citizens be more ethical than a society of poor citizens? Smith treats this question very seriously because he believes that the road to virtue and the road to fortune do not always go in the same direction. He observes that "this disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition, though necessary both to establish and to maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments" (p. 61, I.iii.3.1). The wealthy "too frequently abandon the paths of virtue" (p. 64, I.iii.3.8) and too often the middle class imitate the vices that most "dishonour and degrade" the wealthy. As such, society would have substantial ethical problems if everyone was rich.

However, Smith's hope for the future is in the hands of an emerging middle class, not the wealthy. He notes that "men in the inferior and middle stations of life, (in comparison to the wealthy), can never be great enough to be above the law" and "in the middling and inferior stations of life, the road to virtue and
that to fortune, to such fortune, at least, as men in such stations can reasonably expect to acquire, are, happily in most cases, very nearly the same” (p. 63, I.iii.3.5).

Smith believed that the majority of people who would fulfill positions in a growing middle class would not pursue detrimental self-interests because they tend to be very responsive to scoldings from an “impartial spectator.” Though Smith does not make these distinctions explicitly, he accounts for at least four types of impartial spectators: (1) our conscience, (2) imagined moral agent(s) observing our motives and actions, (3) communal law and (4) God. In the opening sentence of The Theory of Moral Sentiments Smith writes: “How selfish soever many may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it” (p. 9, I.i.I.1). In discussing the philosophical and psychological dynamics of the impartial spectator, Smith explains that (p. 137, III.3.5):

“It is reason, principle, conscience, the inhabitant of the breast, the man within, the great judge and arbiter or our conductor. It is he who, whenever we are about to act so as to affect the happiness of others, calls to us, with a voice capable of astonishing the most presumptuous of our passions, that we are but one of the multitude, in no respect better than any other in it; and that when we prefer ourselves so shamefully and so blindly to others we become the proper objects of resentment, abhorrence, and execration. It is from him that we learn the real littleness of ourselves, and of whatever relates to ourselves, and the natural misrepresentations of self-love can be corrected only by the eye of this impartial spectator.”

For those who are insensitive to the moral sentiments of the impartial spectator, a strong system of justice funded by, but independent of, the government is essential to determine culpability and appropriate punishments. It was Smith in The Wealth of Nations, not Marx and Engels in The Communist Manifesto, who wrote that government’s primary duty is to protect “every member of the society from the injustice or oppression of every other member of it” (vol. 2, p. 231, II.Vi.ii). Note that Smith, primarily a consequentialist, has a deontological agent-centered restriction—do not harm or oppress others. At no point does Smith argue that, if thousands of laborers must die for the sake of building a transportation system, then so be it. In The Wealth of Nations Smith was bothered by an extreme application of the division of labor because it makes laborers “as stupid and ignorant as it is possible for a human creature to become” (vol. ii, 302-303).

According to Nicholas von Hoffman’s Capitalist Fools, history provides ample anecdotal evidence that, as experienced in the United States, early capitalists were bad people who improved social welfare and modern capitalists are bad people who are ruining social welfare. He presents extensive evidence with the intention of pushing for reforming capitalism, not abandoning it. However, as discussed below, he has unintentionally gathered evidence that could support arguments for abandoning it as well.
Early Capitalists: Bad People Who Improve Social Welfare

According to von Hoffman, early capitalists were bad people engaged in self-interested activities that improved social welfare. This gallery of slimy characters included James Buchanan (Diamond Jim) Brady, Andrew Carnegie, Daniel Drew, Cyrus Eaton, Marshall Field II, Jim Fisk, B. C. Forbes, Henry Ford, Henry C. Frick, Jay Gould, William Randolph Hearst, Sam Insull, Bernarr Macfadden, Richard B. Mellon, J. P. Morgan, Isaac Newton, John Patterson, John D. Rockefeller, Russell Sage, Charlie Schwab, William H. Vanderbilt and Richard Whitney, among others. Von Hoffman tells their tales with the intention of showing that although early capitalists were just as slimy as modern capitalists, they, unlike their modern counterparts, were also involved in activities that improved social welfare. The early capitalists may have used methods such as “inciting intergroup violence, using child labor and killing employees by knowingly making them work in unsafe circumstances,” but this was still the time of wild economic growth and great accomplishments (p. 211).

For instance, Diamond Jim Brady bribed customers with money, alcohol and sex, but he also introduced new equipment and technology “which enabled the railroads to lay track quicker and to run freight cars with heavier loads faster than before” (pp. 21-22). William Hearst dragged the United States into the Spanish-American War and scandalized journalism, but he also applied new technologies to the newspaper industry to inaugurate “mass circulation publications” (p. 37). Henry Ford was an “anti-Semitic horror” (p. 43) and cruel employer, but he also more than doubled the daily wage rate of his 13,000 unskilled assembly line workers. Isaac Newton bribed government officials and tried to physically destroy his competitor’s product, but he greatly improved commerce by funding the De Witt Clinton steamship. Henry Frick treated his employees like he was Al Capone, being responsible for the battle of Connellsville which left seven people dead, and the battle of Homestead which left ten dead and more than sixty wounded, but he was partly responsible, along with Carnegie, for increasing steel production by 3,000% between 1870 and 1880.

There’s more. B. C. Forbes was a gambler and alcoholic, but he wouldn’t advertise liquor in Forbes magazine and he ran contests such as “Who Is the Best Employer in America.” Charlie Schwab bribed a Russian Duke’s mistress with a $200,000 necklace (1905 value) just prior to receiving a steal contract for the Trans-Siberian railroad, was “greedy, selfish and callous…and more” (p. 82), operated “a gigantic conspiracy to extract monopoly prices from a defenseless nation,” (p. 116) was a notorious gambler, and had at least one illegitimate child, but he revolutionized the steel industry by marketing the “I-beam” and he made a significant contribution to Allied efforts during WWI. J. P. Morgan was “Mr. Evil Wall Street incarnate” (p. 107) and had several illegitimate kids, but he arranged the financing for building railroads. Jay Gould was “the most loathed and feared market operator of the nineteenth century, who, thanks to a corrupt relationship with Ulysses S. Grant’s brother-in-law, was able to corner the gold market and create turmoil in the markets of Europe as well as the United States.”
but he also helped finance the nation's railways. Sam Insull was "boorish, high-handed, autocratic, sometimes ruthless, often insulting" (p. 175) and "a political corruptionist on a grand scale" but he adopted a number of technological improvements that made electricity affordable to the masses.

The award for the best juxtaposition of "on the one hand he was personally evil, but on the other hand his business improved social welfare" goes to John Patterson, the founder of the National Cash Register Company in the mid-1880s. Patterson was a "madman" with "satanic defects," who had a "napoleonic ego," dismissed executives based on a theory he believed about the alignment of bumps on people's heads, closed a plant of 2,000 workers in Dayton, Ohio for six months until a local newspaper apologized for criticizing his behavior, paid his competitor's employees to sabotage the competitor, manufactured and sold malfunctioning exact copies of his competitor's machines, falsely sued competitors to keep their money tied up in court, cornered 95% of the cash register market such that he was the "first person tried and convicted under the criminal, not the civil, section of the Sherman Anti-Trust Act," and had Tom Watson, who would later found IBM, establish two dummy stores, one on either side of a competitor, that cut prices "until the enemy owner belly-upped" (p. 57), BUT he adopted new technologies to improve the accounting system and established new industrial facilities that offered laborers more human working conditions.

Importantly, the insulting behavior between the early capitalists and local merchants was a two-way street. Von Hoffman tells the following chilling story about the reaction of small shop owners' to Sears and Roebuck (pp. 7-8):

"Local merchants spread the word that Richard Sears and Alvah Roebuck were of African-American descent; anti-Semitic canards were circulated about Julius Rosenwald when he took the helm at Sears. In small towns storekeepers paid children as much as a dime for every catalogue they brought to the bonfires ignited in the public squares to destroy them. In other places kids bearing catalogues were admitted free to the movies, and in Warsaw, Iowa, a candidate for mayor promised that, if elected, he would fire any city employee caught buying merchandise from a mail order house."

Certainly not every early capitalist was a despicable character. Von Hoffman offers one exception to the rule—Golden Rule Jones. Jones, who founded the Acme Sucker Rod Company in 1895 believed that the golden rule of "do unto others as you want done to you" should be applied to personal relationships. A few of his social accomplishments included selling ball bearing maypoles to public institutions at cost, paying his workers one third more than the going rate, cutting the 10 hour work day down to 8, building a park for his employees, subsidizing employee lunches, paying employee medical insurance and offering stock purchase programs for the employees. He was later elected mayor of Toledo.

**Modern Capitalists: Bad People Who Ruin Society**

According to von Hoffman, modern capitalists, on the other hand, are bad people who ruin society. Whereas their predecessors improved social welfare, the selfish behaviors of modern capitalists have the opposite impact. Von Hoff-

What they share in common with their predecessors is a strong personal desire for schmoozing, boozing, bribery, sex, insider information, breaking the law, destroying the competitor, cornering a market, alcoholism, egotism, posh surroundings, unbelievable perks, unnecessary extravagances, and unheard of salaries. What modern capitalists do not share in common with the early capitalists is the ability to deliver "the bacon" (p. 187). According to von Hoffman, although "the robber barons had a violent robustness about them...their accomplishments were at least as impressive as their villainies, something which cannot be said of Messers. Icahn, Pickens, et allii" (p. 190). Although both groups of capitalists passed out bribes, the early capitalists "got the job done, and getting the job done earns no little forgiveness (whereas) the second pocket the money, but they don't get the job done, and for them, no forgiveness is possible" (p. 193). As a result, modern times are marked by capitalists who are responsible for amassing a tremendous amount of debt, laying off millions of employees, depleting employee pension funds, and generating a record number of bankruptcies.

There are exceptions to the rule, of course, and those who are bringing home the bacon include William H. Gates III, Ray Kroc, Stephen Jobs, Estée Lauder, Frederick Smith and Sam Walton. Nonetheless, these modern capitalists are swamped by the ineffective ones. Von Hoffman argues that (p. 48):

"There are strivers today, men and women as ambitious as B.C. (Forbes), but they are solely creatures of the bottom line, people who have lied themselves into believing and proclaiming their profit is the public's gain. With no wider goal than career and bank account, they are bereft of the merest notion of commonweal. Many do not know the word's definition, literally don't know what it means. They believe they are entitled to take, take away, take off and never replace, never give back, never restore. They are *repax*, the Latin onomatopoeic word for grasping, greedy, snatching, ripping out and making off with."

*Why Modern Capitalists Are Less Ethical*

According to von Hoffman, when capitalists ask why American society is economically and ethically declining, all they need to do is look in the mirror for the answer. Companies are currently operated by spineless people lacking a strong moral character. According to von Hoffman, "the American business problem isn't Japanese tricks, it's a question of character" (p. 77). What does he mean by this? How did this happen?

As noted earlier, von Hoffman's emotional tirade takes the form of a machine-gun attack on the current status quo. Shots are fired simultaneously in multiple
directions. His unsystematic rapid-fire complaints about the status quo deserve some formal structure. The table below provides a list of premises that appear to lead to his conclusion.

Premise 1: Short-Sighted Speculators Coopt CEOs.
Premise 2: CEOs Dominate Ineffective Boards of Directors.
Premise 3: Businesses Coopt and Corrupt the Media.
Premise 4: Businesses Coopt and Corrupt Education.
Premise 5: CEOs Achieve Celebrity Status.
Premise 6: CEOs Get Wealthier and Wealthier.
Premise 7: CEOs Become Less Personally Responsible.
Premise 8: CEOs Develop Larger, Less Effective Organizations.

Conclusion: CEOs Ruin the Nation's Social Welfare.

Basically, those stockholders who demand quarterly dividends have coopted CEOs who, in turn, have coopted the social institutions that should put a check on their own behavior, namely: boards of directors, the media and education. As a result, CEOs have achieved celebrity status in the popular press, accumulating massive wealth while simultaneously decreasing their own personal responsibility. The end results are large, inflexible organizations engaged in activities that enhance the wealth of CEOs while ruining the nation's social welfare.

Each premise, which overlaps other premises to some degree, can serve as a hypothesis that is worthy of empirical research, something von Hoffman is not keen on providing. For instance, is it true that CEOs dominate Boards of Directors more in 1990 than in 1900? Is it true that modern capitalists, compared to early capitalists, have more celebrity status, more wealth, more authoritarian tendencies and less sense of personal responsibility? Each of these ingredients to the downfall of capitalism will be elaborated based upon von Hoffman's analysis.

Short-Sighted Speculators Coopt CEOs. Modern CEOs are much too sensitive to Wall Street's incentive system. They are dominated by the idea of a 15% Return-On-Investment. Short-term sacrifices for long-term benefits are rare. Instead, the common belief is that "if we make the numbers come out right, we're all going to get filthy, muddy, slimy rich" (p. 235). As such, managers rely too much on financial numbers and financial people to run their organizations. Managers who have mastered the techniques of finance and accounting in MBA programs prefer manipulating numbers on their computer screens to show that they have achieved the quarterly goal of 15% ROI, rather than performing long-term planning. They mistakenly believe that they can learn a generic technique in a business school and then apply it universally without taking into consideration the uniqueness of the business. To make matters worse, Congress is on the side of the short-term stock speculators. The capital gains tax cut which the Republicans have tried to pass through Congress every year "is more money for the stock swindler community, not more money for (company) investment" (p. 202).

As a result, the current flock of CEOs is easily manipulated by stock speculators such as Michael Milken. According to von Hoffman (p. 252):
"The hard-working, ordinary business people, the executives who do bust ass—and there still are hundreds of thousands of them—are suckers for the abracadabra men (Milken et. al.). They go for the pitch not necessarily because they’re greedy. Many a business person is profit-motivated, but not greedy. They go for the pitch because they are optimists, they are boomers, boosters and ballyhooers, because they have to be. The heart and soul of business is a hopeful optimism which believes, with no solid evidence to support it, that the other guy’s word is good, that he will stick to the letter of the contract, that the delivery will come in on time, that the parts will fit together, that the loan will be approved, that the people in the machine shop will do it right, that the ad will pull, that the new product line is right, that the competition doesn’t have something better, that the government isn’t going to shut ’em down and, above all else, that the customers will come in the door with money in hand."

These people are easy marks because they want to believe. When it doesn’t work, and the thing comes crashing down on them, they treat it as an unfortunate Saturday night drunk, pick themselves up and start over again. But these aren’t episodic binges."

The early capitalists were less responsive to Wall Street. Andrew Carnegie of U.S. Steel, Charles Schwab of Bethlehem Steel, Alfred Sloan of G.M., and Theodore Vail of AT&T went long periods of time without paying any dividends. John D. Rockefeller said that “I have always opposed putting Standard Oil shares on the Stock Exchange because I did not want them to become the playthings of speculators” (p. 196). Instead, the early capitalists preferred to reinvest their quarterly profits into their own companies.

**CEOs Dominate Ineffective Boards of Directors.** Boards of Directors are not fulfilling their intended functions. Most current board members do not take their job of overseeing company operations seriously. They are highly paid to attend a few meetings every year where they typically rubber-stamp the policies of the current CEO. CEOs appoint their friends to their boards and, in return, they receive tenure. Executive hirings and promotions are based on pedigree rather than performance. Early capitalists relied more upon a meritocratic system of promotion. This is no longer the case. Jimmy Robinson of American Express never proved he could run the business. Instead, he got the job primarily because his father and grandfather were bank presidents, he went to Harvard Business School, and then worked at Morgan Bank. According to von Hoffman, this is equivalent to “affirmative action for a white, upper-class male” (p. 91).

**Businesses Co-opt and Corrupt the Media.** Modern business journalism plays the role of cheerleader, rather than the needed moral critic. Reprehensible behavior is white-washed for fear of losing advertising dollars. The business press is too faddish and lacks a consistent attention span to business activities. Public interest magazines such as *Newsweek* accord “CEOs semiroyal status” (p. 83). Criticism of CEOs is reserved for when there is an economic downturn; otherwise, they are treated with kid gloves. The situation is even worse now because so much of the media is currently owned by corporations who will not encourage their journalists to bad-mouth other companies. Instead, they accept prefabricated stories supplied by public relations firms that cover up the CEO’s many failures.
This was not always the case. Many of the early newspapers and magazines were started because the founder—such as S. S. McClure, Cyrus H. K. Curtis, Briton Hadden, Henry Luce, and B. C. Forbes—wanted to mix business and political/moral advocacy, "a sense of mission and of profits rolled into one" (p. 145). Be they pro-business or anti-business, these men were upfront about what they stood for. B. C. Forbes did not hesitate condemning Henry Ford in print. Currently, these personal missions have been set-aside as the media is dominated by corporate giants who are afraid to speak their minds. Advertisers control the media. For instance, whatever television programming increases ratings is acceptable to advertisers regardless of its impact on society. Modern media pioneers are afraid to mix their politics with their work. According to von Hoffman, media giants such as "Ted Turner and Christopher Whittle, came to communications with no message, nothing to say" (p. 151).

**Business Coopt and Corrupt Education.** Businesses corrupt the educational process from the very beginning of a person's life. Advertising during children's shows creates a mind-set that discourages learning and encourages instant gratification. An advertiser's dream person is a brain-dead couch potato. Instead of being taught through books, children now learn by being entertained. Their heroes are not scientists or investors; rather, their heroes are wealthy athletes and entertainers.

According to von Hoffman, "entertainment addicted kids who don't do schoolwork because it's dull, boring and bothersome are tough cases even for teachers who hope to teach them statistical mechanics by doing Frank Sinatra imitations" (p. 163). The highlight of a college education for the stimulation-overloaded, Walkman addicted, teenager is spring break in Florida. In addition, "it is beyond dispute that beer and wine companies are free to do their damnedest to turn teenagers into alcoholics and the manufacturers of every product under the sun are free to sell their wares by keeping high-hormoned young people in a state of perpetual sexual arousal, despite the fact that AIDS permeates the land" (p. 127).

High schools and colleges put more money into their football teams than they do in buying new books for the high school library. Every college and professional sporting event now has a corporate sponsor, thus making business even more paramount in the public's eye. Even with all this money, university athletic programs are still money losers, and thus they siphon funds intended for scholastics. As a result, the lowest acceptable passing grade dips lower and lower. Now almost half of all doctorates in mathematics, physics and computer sciences are awarded to foreign-born nationals who will return to their homelands.

Business has academia in its back pockets. According to von Hoffman, why else would sixty (not ten, twenty, thirty, forty or fifty, but sixty!) universities give Malcolm Forbes honorary doctorates? Business school professors are apologists for the worst behaviors of capitalists. In return the capitalists endow their schools and employ their graduates. According to von Hoffman, businesses bribe professors by employing them to do work for academic think tanks such as the American Enterprise Institute. Instead of being watchdogs, professors have become business cheerleaders. Von Hoffman predicts that the next business victim will be the art world. With greater regularity, businesses view museums
as vehicles to market themselves. For instance, the New York Metropolitan Museum of Art, under consultation with Bloomingdale's Department Store, recently completed a very successful box-office showing of "Twenty-Five Years of Yves Saint Laurent."

**CEOs Achieve Celebrity Status.** CEOs who achieve quarterly 15% ROI are now celebrities. The media and professors are all too ready to be their boosters, in exchange for advertising dollars and endowments, of course. According to von Hoffman (p. 57):

> "It's the loudmouths, not the doers who get the spotlight. The CEO with the wide public reputation, a People magazine quality reputation, is either a loser or a criminal, or both. In the backseats of those limousines with mysterious black windows they are the vanguard of the downward inclining procession. Egotistical, abrasive and abrupt, surrounded by boardroom ticks and leeches, they are the corporate Bourbons, with swelled heads and swollen appetites, entrenched and useless."

As such, the Iacocca-clones are more prone to drift away from the organization’s mission. They don’t concentrate on their business enough. Older CEOs had their hobbies, but these did not distract them from their organizational duties. Celebrity status was previously granted to inventors, not CEOs. In 1900, because becoming an inventor was the way to fame and fortune people pursued this path and it was good for the nation. Currently, becoming a high-level manager generates fame and fortune, so young people are no longer thriving to be inventors. Modern inventors are anonymous or viewed as geeks or crackpots.

**CEOs Get Wealthier and Wealthier.** With each passing year the gap in salaries between CEOs and average blue-collar workers gets larger and larger, with Time Warner’s Steven Ross tipping the scales at $80 million for one year. In the United States, this ratio is 85:1, whereas in Japan the ratio is closer to 10:1. This makes the average blue-collar worker cynical about working hard for the company. CEOs have an overabundance of perks, so the pampered executives make pampered decisions. According to von Hoffman (pp. 219-20):

> "Money is a basic red, white and blue motivation, but the reason Andrew Carnegie kept the salaries of his executives low was that he knew if you pay them kettles and vats full of money, they don't work as hard, they don't apply themselves as much, they don't do as good a job. Americans have seen that with their professional athletes. Despite the bulldiddy about how they play for pride and for the team and the hometown, the incontrovertible truth is that nine out of ten of them stop giving a hundred percent once they get their three-million-dollar contract. What is true of instant black millionaires from the ghetto is true of instant white multimillionaires in the better suburbs. Pay them these huge amounts of money, but only after the day is done, when they're getting their gold watch and going off to Palm Springs for twenty years of golfing and gassing with the other retired millionaires."

**CEOs Become Less Personally Responsible.** Current CEOs are held less accountable for their organization’s performance. Jimmy Robinson led American Express down the tubes for over fifteen years before he was pushed out the door. The current attitude among CEOs is to manage the status quo and blame all failures on some external factor, like the economy. Business discipline is further weakened
by government's willingness to keep bankrupt firms afloat, or by trying to put a spin on business failure that hides its enormities, such as the S&L debacle.

The old time ethic was that the CEO is fully responsible for the company's success or failure. The early capitalists believed that "nothing gets done unless somebody does it" (p. 27). They didn't expect handouts. Ownership was more clearly defined and very active. They gave their business its mission and fed their own creative ideas through their organizations. Now organizations are ruled by managers, not owners, who lack a clear sense of organizational mission. They are simply caretakers, bending to current whims until it is time for them to retire.

**CEOs Develop Larger, Less Effective Organizations.** Currently, big business principles include "overstaffing, bureaucracy, sloth, sloppiness, routine, lack of accountability, failure to follow through, waste, rigidity, tunnel vision and an addition to the use of the hold button" (p. 209). CEOs desire to build conglomerates that they know nothing about rather than to stick to the knitting. With the increasing largeness of organizations over time, managers are very resistant to change and slow to respond. Due to their increasing wealth, business executives have become too distant from human needs, thus they failed to develop fax machines or transistors. Managers prefer cosmetic changes, such as the more than 4,000 companies that changed their names, but not management teams, within a five year span of the 1980s. Unlike early capitalists in the auto industry who were trained in mechanics and engineering—such as Ford, Maxwell, Sloan, Dodge, Chrysler—modern CEOs are trained in finance. As a result, they do not know the product, only the numbers.

**CEOs Ruin the Nation's Social Welfare.** As summarized in the previous section, the current class of modern capitalists are bad people who ruin society whereas the early capitalists were bad people who improved society. Unlike Henry Kravis, early capitalists were "men of a different character (who) would have invented other, socially useful ways to make their millions instead of getting their plunder via the destructive leveraged buyout which almost invariably leaves the victim company half dead with debt" (p. 84). An example of how business cooptation of the media and educational institutions negatively affects society is the manner in which overworked parents must work too many hours for too little money in order to provide for their children. As such, the situation will worsen before it improves because these future business employees lack appropriate parental guidance. According to von Hoffman (pp. 159-60):

"In real time, that has come to mean that children are not raised by their parents. They are raised by television sets, in industrial creches, at the neighbors who take in toddlers, by scudzy, commercial nursery schools where the johns leak and the health inspector is bribed and by the million and one different expedients hard-pressed parents have devised to keep their little ones physically safe. Mentally and morally the American toddler is on his or her own. In some communities it has been reported that hospitals, hard-pressed business enterprises themselves, advertise special facilities for sick children who are too infectious to go to the day care center. The standard of living which business has taught people to expect can't be obtained by most one-income families, but business has not brought forth the wealth for working people to pay for good child care."
The inability of modern capitalists to bring home the bacon is now causing racial tensions. There simply are not enough jobs to go around for all those who deserve them. Previously discriminated blacks, deserving of jobs, must now fight against reversely discriminated whites, also deserving of jobs, for scarce jobs with low wages. Due to the inability of businesses to generate what society needs, "like ghouls rifling the bodies of the dead, organized groups prowl the society looking for weaker groups' benefits to take for their own" (pp. 212-13).

Importantly, von Hoffman does not attribute the nation's economic and ethical decline to a well-planned conspiracy. Von Hoffman summarizes the modern predicament as follows (p. 71):

"This is assuredly not an organized conspiracy, and business does bring great blessings, but it also destroys what it depends on for life. Business doesn't want to turn young people into blithering idiots, it doesn't want to devour the organism which sustains it, but it operates like some mindless virus, killing off the national future because business has got to do what business does."

**Solutions**

Nicholas von Hoffman does not offer much by the way of solutions to the problem that he exposes. This is probably due to the manner in which his book evolved. Initially planning a biography of Malcolm Forbes, he was struck by the difference in social consciousness between Malcolm and his father, B. C. Forbes. Unimpressed by Malcolm's life, von Hoffman decided to write a book comparing the attitudes and accomplishments of early capitalists and modern capitalists. His suggested solutions to the decline of ethics appear to have been slapped on to the end of the book. Given how poorly edited this book is, this is probably the only advice he took from his editor. Von Hoffman's writing style unintentionally mimics the stereotypical teenager he discusses: he cannot hold a consistent thought for more than two consecutive paragraphs. He people hops the same way many teenagers channel hop.

What should be done about the preponderance of unethical CEOs who are ruining society? Von Hoffman suggests: (1) abolishing the corporate tax so that corporations can reinvest their profits into company operations, (2) encouraging CEOs to invest money into their firms rather than using their money to buy back their stock or pay dividends, (3) placing more outside members on the board of directors, (4) encouraging a greater dispersion of stock ownership, (5) eliminating the practice of nepotism, (6) establishing a federal charter system for organizations, (7) creating a two-tier banking system, one which is heavily regulated and insured, the other highly speculative and uninsured, (8) eliminating laws that provide corporations with the legal status of people, (9) increasing the liability of company stockholders for corporate wrongdoings, and (10) abolishing the Small Business Administration.

Von Hoffman seems to believe that tinkering with the tax system, legal system and banking system will be enough to reverse the decline of business ethics. If it is true that short-sighted speculators have coopted CEOs, that businesses have coopted the media and educational institutions, and that CEOs are ruining the
nation's social welfare, then these tinkerings will not be sufficient to end the decline. At best, these tinkerings will bring society full-circle, economic governance by bad people whose self-interested behaviors improve social welfare rather than ruin it. What should we do regarding these bad people who happen to be rich? Just let bygones be bygones?

If you want a better reasoned understanding about the negative impact of capitalist ethics on social institutions you should read Robert Bellah et al. (1992) *The Good Society.* If you want better reasoned solutions to the decline of ethics in business you should read Donald L. Barlett & James B. Steel (1992) *America: What Went Wrong?* and John E. Schwarz and Thomas J. Volgy (1992) *The Forgotten Americans: Thirty Million Working Poor in the Land of Opportunity.* The purpose of Von Hoffman's book is to selectively tell stories that support his belief that business leaders are leading American society into a cesspool. Von Hoffman does have hope for the future, but the fulfillment of this hope will require well-intentioned leaders with a clear goal and plan. Von Hoffman concludes his book by writing (p. 275):

"America was consciously invented, and then reinvented again and again, in peace and war, by genius and industry, reinvented by new people coming and giving of their ideals, and their hopes, their thoughts and talents. It is time for us to make our country yet again."

Von Hoffman's hope is misplaced. Let us assume that the ten policy recommendations are implemented by the Clinton Administration. Ethically, we are back to square one: an economic system governed by bad people whose self-interested activities improve social welfare. This is an ethically acceptable according to Von Hoffman's analysis because his ethical analysis is based on utilitarian ethics, not deontological ethics.

According to von Hoffman, the historical roots of U.S. capitalism consists of corruption, violence and authoritarianism. He notes that "in America's history, it was businessmen, as much as frontier gunslingers and road agents, who helped establish a lasting place for violence and coercion in the daily life of the nation" (p. 46). Further, "industrial America was midwived by violence" and, due to their historical context, "the means used by Carnegie and Frick were the only means to build a great steel business" (p. 45). The badness of early capitalists is forgiven due to the many things they did that coincidentally improved social welfare. Based on a utilitarian calculation, the early capitalists, though despicable, partook in activities that improved social welfare. Modern capitalists, also despicable, partake in activities that ruin social welfare. Thus, for a utilitarian, the moderns are more unethical than the early capitalists.

Deontologically, both early and modern capitalists are despicable characters. Regardless of the consequences, deontologists maintain that the behaviors of both early and modern capitalists are unacceptable, which is why so much of the business ethics literature is grounded in deontological critique of business activities. It seems all too sterile to forgive the behavior of early capitalists on utilitarian grounds, particularly for those whose grandfathers, grandmothers, aunts and uncles are probably among the 35,000 workers killed in industrial
accidents and 700,000 injured in 1914 alone. For von Hoffman and many other utilitarian defenders of capitalism, these people are mere data points representing a price that had to be paid in order to build the railroads or develop steel. Howard Zinn's *A People's History of the United States* (1980) offers a much more empathetic portrait of the lives of those whom von Hoffman so easily discounts.

Adam Smith, the father of capitalism, provides us with a different type of framework for analyzing the ethics of capitalism. As discussed earlier, Smith, primarily a consequentialist, provides a mix of utilitarian and deontological ethics as the ethical foundation for capitalism. Government should encourage individuals to pursue their economic self-interests as long as two provisions are being met: (1) improvements in social welfare are generated even if nobody intends for this to happen and (2) harms are not generated. Based on the information contained in this book, the early capitalists failed the second provision and modern capitalists fail both provisions. Von Hoffman would like to backtrack to the good ole days of early capitalism where only the no harm provision was violated.

This retreat would likely cause Smith some moral anguish. Both early and modern capitalists are pursuing their self-interests in a harm-generating manner. The tendency among scholars is to present Smith as an ardent utilitarian, *BUT* he is not. He takes his agent-centered restrictions quite seriously. Smith maintained that (p. 82, II.ii.2.1):

"There can be no proper motive for hurting our neighbour, there can be no incitement to do evil to another, which mankind will go along with, except just indignation for evil which that other has done to us. To disturb his happiness merely because it stands in the way of our own, to take from him what is of real use to him merely because it may be of equal or of more use to us, or to indulge, in this manner, at the expense of other people, the natural preference with every man has for his own happiness above that of other people, is what no impartial spectator can go along with."

Keeping in mind that Smith is writing prior to the existence of capitalism, he assumed that when capitalism was adopted good people would eventually rise up the economic ladder and positively influence the stewards of industry. Smith was well aware that very selfish people had risen to the top of the mercantilist system. He attributed this in part to the tight controls that government placed on who could rise to this position. The adoption of capitalism would allow more "common" people to rise to the top, and these individuals would pursue actions that were guided by the impartial spectator principle. But, based on the evidence offered in *Capitalist Fools*, this has not occurred. Capitalism began with bad people who improved social welfare. These bad people were not replaced with good people. Not only that, the bad people multiplied to such an extent that now CEOs are engaged in activities that are ruining social welfare. Smith maintained that (p. 262, VI.conclusion.1):

"If in the course of the day we have swerved in any respect from the rules which (the impartial spectator) prescribes to us: if we have either exceeded or relaxed in our frugality; if we have either exceeded or related in our industry, if through
passion of inadvertently, we have hurt in any respect the interest or happiness of our neighbour; if we have neglected a plain and proper opportunity of promoting that interest or happiness; it is this inmate who, in the evening, calls us to an account for all those omissions and violations, and his reproaches often make us blush inwardly both for our folly and inattention to our own happiness, and for our still greater indifference and inattentions perhaps, to that of other people."

I am not privy to the thoughts and sentiments that flow through the hearts and minds of CEOs as they rest their heads on their pillows at night. But based upon data provided by von Hoffman and others, many CEOs must be communicating with morally deformed impartial spectators who provide daily rationalizations for the harms they cause many people. Or, they drink just enough whiskey at night to strangle those inner voices. Offering required business ethics courses to future CEOs is a step in the right direction, but what a small, essential, step that is.

Lastly, what explains the industrial blindness and social deafness, to paraphrase Helen Keller, of academics and other social guardians to the cries of their impartial spectators? Von Hoffman maintains that our current lack of moral sentiments is a function of business schools being coopted by business. This may be true.

However, John Kenneth Galbraith's recent book, *The Culture of Contentment*, offers a slightly different explanation. During early capitalism, the economically and socially fortunate were a small minority. Over time, the benefits of capitalism have spread to a contented electoral majority, which includes many academics and other defenders of the public interest.

What beliefs do those sucked into the culture of contentment hold? First, we deserve the perks we have obtained. Second, short-run public inaction, which costs us little, is always preferred to protective long-run action, which may cost us a fortune. Third, government is a burden which needs to be eliminated, not enhanced. Fourth, society must tolerate great differences in income. Anybody want to explore market socialism (Buchanan, 1988, Harrington, 1989)?

**Bibliography**


