Chapter 5 The Social Contract of an Enterprise, Part I

§ 1. The Challenge of Commercial Mini-Societies

From the viewpoint of a scientific observer/analyst, commercial entities are peculiar mini-Societies embedded in a larger socio-political parent Society[1]. The actions and behaviors of the people who constitute them affect others in that Society, and the actions and behaviors of people who are outside of them likewise affect the people within them. They make up a dominant part of the overall socio-politico-economic dynamics of their parent Society. Because as business entities they are means by which individuals satisfy their personal Duties and Obligations in regard to each individual's own tangible *Personfähigkeit*, the natures of these mini-Societies necessarily involve situations and action behaviors which are determined by moral judgments made by the people personally involved with each business entity according to personal and private moral codes constructed by each of these persons in his manifold of rules. This is to say there is no *and can be no* real division between business-economic issues and deontological moral issues. I am not saying there *ought* to be indivisible real unity between commercial and deontological moral considerations; I am saying there always *is* indivisible real unity of them and nothing whatsoever can alter this because it is a property of *H. sapiens'* fundamental and *homo noumenal* real Nature[2]. It does not matter in the least whether you or I think business and commerce either are or should be independent of deontological moral factors. The fact is they are not and cannot be made independent of each other. One consequence is that problems of *economic* ill-being can and do ignite extreme *political* passions, including criminal ones, in people of the parent Society.

The phenomenon of mini-Societies embedded in parent Societies poses the greatest challenges to the well-being of every nation and is the chief hindrance to establishing and maintaining liberty with justice in a nation. It is the principal factor in the breakdown and disintegration of a Society and the causative historical source of the fall of civilizations. It produces state-of-nature hostility between factions when the special interests of different mini-Societies come into conflict. Uncivic free enterprise is an economic consequence when problems posed by mini-Societies are not dealt with and the challenges they present are not met and overcome by a Society. Of the four major empirical forms of Society governance encountered in history, only two of these – *Gemeinschaft* governance (also known as consensus democracy) and Republics (specifically, that form I call an American Republic) – are capable of meeting the challenges of mini-Societies in such a way that maintenance of the *Existenz* of a Society in the long run is made possible. The other two major empirical systems of governance – non-consensus democracy (also known as the democratic republic) and monarchy/oligarchy – eventually bring about the same final result, namely the breakdown, disintegration, and fall of the Societies they govern. This empirical fact is indirectly documented by Toynbee's work [Toynbee (1946)] inasmuch as all of the fallen civilizations he studied were governed by either monarchy/oligarchy or by one or another form of non-consensus

[1] There are a number of special considerations that enter into situations involving so-called multinational corporations because, by definition, these entities are embedded in more than one national Society. However, these special cases are merely more complicated than the usual cases and do not differ in kind from the simpler cases of non-multinational business entities. Everything presented in this chapter applies to multinational corporations but not everything that must be considered in regard to a multinational corporation is a consideration that applies to the simpler non-multinational cases.

[2] This *theorem* of human nature applies specifically and only to *deontological* morals (*Sitten*) because it is only here where moral theory has real objective validity. Other systems of ethical theories (i.e., virtue ethics and consequentialist ethics) have only *subjective* validity for *individuals* and for this reason these ethical theories are not scientifically applicable to social-natural science. The moral tenets of these latter theories are "ought to" concepts of the individuals who hold with them. Science does not and cannot deal with subjective "ought to" tenets except as peculiar cases of individual and group psychology.

democracy.

Republics have historically been very rare although non-Republics *called* republics have been less rare and are not unusual today. The Roman republic had a government that was constituted in part as an oligarchy (the Roman Senate) and in part as a non-consensus democracy [Durant (1944), pp. 21-35]. The 18th century government of Holland was called a republic but was in fact an oligarchy form of governance [Hamilton *et al*. (1787-8), no. 29, pp. 209-210]. Theoretical republicanism began to be explored in political science in the late 17th century by Locke (1690) and was further developed in the 18th century by Montesquieu (1748) and Rousseau (1762). Its concept was further refined by America's Founding Fathers [Hamilton *et al*. (1787-8); Adams (1790)] and had its first trial following the adoption of the U.S. Constitution in 1789 (which is why I call this form of governance an American Republic). Prior to 1789 no true Republic had ever been attempted and, despite being one of the principal developers of the idea, Rousseau himself was gloomy in his prognosis for this and every other form of governance:

> The body politic, as well as the human body, begins to die as soon as it is born, and carries within itself the cause of its destruction. But both may have a constitution that is more or less robust and suited to preserve them for a longer or a shorter time. The constitution of man is a work of nature; that of the State a work of art. It is not in men's power to prolong their own lives; but it is for them to prolong as much as possible the life of the State, by giving it the best possible constitution. The best constituted State will have an end; but it will end later than any other unless some unforeseen accident brings about its untimely destruction. [Rousseau (1762), pg. 93]

The United States is a Society that attempted to institute itself as a Republic but failed to adequately recognize and meet the challenge of mini-Society. As a result, it soon became a non-consensus democracy (a democratic republic) afflicted by the degenerative social disease of national political parties a few decades after its founding.

It is noteworthy that the longest-enduring Society in history, the BaMbuti Pygmies living in the Ituri Forest of the Congo, is a *Gemeinschaft* Society that has successfully met the challenge of mini-Society since before the time of the Egyptian pharaohs. According to the Wildlife Conservation Society, there is recent archeological evidence suggesting the BaMbuti may have inhabited the Ituri for 40,000 years[3]. Even allowing for considerable uncertainty in this figure, it is almost beyond reasonable doubt the BaMbuti have maintained their Society far longer than any other people who have ever lived. It is beyond reasonable doubt that even BaMbuti Society is a Society in which the phenomenon of mini-Society occurs. Turnbull gives us an example of mini-Society within a BaMbuti group he lived with and studied:

> This particular group was a rather large one, consisting of the two main families – that of Njobo and Masisi, Tungana and Manyalibo; and that of Ekianga and his relatives, including Sau and Amabosu. But to add to the tensions there was a third group which was constantly trying to attach itself. It was intermarried heavily with the other two, as often happens in an attempt to strengthen bonds and establish an unbreakable relation.
>
> The leader of this group – although with Pygmies it is always unwise to talk of single "leaders" – was a wily but naïve Pygmy by the name of Cephu. . . . Cephu's family was large, but not large enough, even with all his in-laws, to form a hunting group of his own. To do this you have to have at the very least six or seven individual families, each with its own hunting net; only in this way can you have an efficient net-hunt, with the women and children driving the animals into the long circle of nets joined end to end. Cephu's group was usually not more than four families, and so he tacked himself onto Njobo and Ekianga.

[3] http://www.wcs.org/saving-wild-places/africa/ituri-forest-congo-drc.aspx accessed Apr. 12, 2015.

> Sometimes this worked out well enough, as Pygmies are great people for visiting their relatives, and one or the other group might be depleted by absences. But at other times they would have a number of families visiting them, and then the addition of Cephu and all his relatives made the whole group far too large and unwieldy. But as he had taken the precaution of exchanging sisters, he could not be refused, and so he would make his own little camp close by connected by a narrow trail. He would follow the others whenever they went hunting and was invariably blamed when the hunt was not a success. At night he and his family kept to themselves, seldom venturing into the main camp. They sat around their own fire, offended, aloof, and rather unhappy, but with hides as tough as that of a forest buffalo and impervious to the most obvious hints and thinly veiled insults. [Turnbull (1961), pp. 36-37]

Unfortunately, *Gemeinschaft* Societies are unable to remain *Gemeinschaft* Societies beyond some relatively small population size. When the Society becomes too populous, it tends to transform itself into one of the other three empirically typical forms, usually either a monarchy/oligarchy or a non-consensus democracy. *Gemeinschaft* governance, either political or enterprising, is not practical to universally implement in a large Society, and for this reason only Republican Society is left to be considered for establishing enduring and prosperous social institutions.

Commercial entities and economic institutions have historically been far more short-lived than political Societies, and it is with them that this treatise is concerned. As mini-Societies they come in a great variety of forms, ranging from nonemployer entrepreneurs (whose mini-Societies consist of particular subsets of the entrepreneur's personal society) to gigantic corporations. Furthermore, the great majority of industrial conglomerates are found to be granulated into some number of mini-mini-Societies existing within the overall conglomerate. The phenomenon of mini-Society is a "fractal" phenomenon (in the sense in which I used this term in chapter 4). Enduring economic systems and enduring commercial entities must resolve the difficult problem of mini-Society if they are to *be* durable.

Furthermore, they must be made durable in the face of external competition for business revenues by other commercial mini-Societies within the parent Society. Competition is what transforms commercial mini-Society issues into social and political Society issues. These issues challenge the parent Society and threaten its general welfare when uncivic competition provokes the formation of state-of-nature relationships among factions in that parent Society. This makes mini-Society challenges become general social contract challenges and necessitates roles for the *political* government of the Society in the regulation of commerce. Bloom semi-rhetorically asked, "Is there ever a pure market, one not part of a society or culture that forms it?" [Bloom (1987), pg. 360]. Social-natural science answers this unequivocally: "No, there never is." This means we must consider carefully the nature of social contracting in commercial associations.

§ 2. Social Contracting and the Industrial Conglomerate

People come together in industrial enterprise associations with one another because by doing so each expects to be able to satisfy particular individual aims pertinent to the welfare interests of their personal societies and in service of their personal Obligations and Duties. If the industrial conglomerate formed out of these associations is to endure, the aggregation these persons create requires more than the mere coexistence of entrepreneurs pursuing their individual interests. It requires that their association constitute a special mini-Society in which the members are united by a particular understanding of their *common* interests and by self-made Obligations each person commits himself to fulfill in their common interests. These ingredients make up the starting point for social as well as economic reciprocal Duties-to-the-others in their common association. This means the members of the industrial conglomerate must strive for more than a shared mini-Society. They must strive to form and maintain not merely an industrial conglomerate but rather a

civil industrial mini-Community. To the extent they succeed in doing so, their association is not merely an industrial conglomerate. It is an ***Enterprise*** formed from their individual enterprises.

Between the industrial conglomerate as a mere aggregation of individual enterprises and the industrial conglomerate as an Enterprise-of-enterprises there is a multiplicity of intermediate kinds of social associations that are possible. These are characterized by granulations into mini-Societies and mini-Communities within that overall mini-Society which is the industrial conglomerate. The social divisions that mark these granulations have immediate pertinence for the capability of the overall organization to economically succeed and, indeed, for it to survive. At the root of this are found relationships of congruent interests and relationships of conflicts of special interests. Governance of the conglomerate is at its roots the organization and practices by which these relationships of congruent and conflicting interests are oriented, guided, and managed. The phenomenal nature of the microeconomics of the business entity's activities is a direct consequence of these factors.

There can be association in a mini-Society through the customs of mores and folkways in the parent Society accompanied by laws regulating personal and collective conducts on the part of the members of the association. No matter how frustrated he might become with you, your boss is not allowed to shoot you and your employer is not allowed to refuse to pay you your agreed-upon wages. You are not allowed to assault your coworkers, strangle your boss with his necktie, or steal the office supplies. These are some of the categorical regulations of the workplace. Social regulations – both customary and written – make up a convention of conducts in which subsist some sort of social compact. It is a fact that any social contract is composed of a mix of unwritten customary conventions and written rules. Montesquieu wrote,

> We have said that the laws were the particular and precise institutions of a legislator, and manners and customs the institutions of a nation in general. Hence it follows that when these manners and customs are to be changed, it ought not to be done by laws; this would have too much the air of tyranny: it would be better to change them by introducing other manners and customs.
>
> Thus when a prince would make great alterations in his kingdom, he should reform by law what is established by law, and change by custom what is settled by custom; for it is very bad policy to change by law what ought to be changed by custom. . . .
>
> Manners and customs are those habits which are not established by legislators, either because they were not able or were not willing to establish them.
>
> There is this difference between laws and manners, that the laws are most adapted to regulate the actions of the subject, and manners to regulate the actions of the man. There is this difference between manners and customs, that the former principally relate to the interior conduct, the latter to the exterior. [Montesquieu (1748), vol. I, pp. 298-300]

One of the symptoms of asocial governance (monarchy/oligarchy and non-consensus democracy) degenerating into despotism or tyranny appears when special interest groups begin trying to codify into law changes in manners and customs practiced by particular mini-Societies without their consent. Reform movements are particularly prone to this destructive behavior. Mill wrote,

> It is not much to be wondered at if impatient or disappointed reformers, groaning under the impediments opposed to the most salutary public improvements by the ignorance, the indifference, the intractableness, the perverse obstinacy of a people, and the corrupt combinations of selfish private interests armed with the powerful weapons afforded by free institutions, should at times sigh for a strong hand to bear down all these obstacles and compel a recalcitrant people to be better governed. But (setting aside the fact that for one despot who now and then reforms an abuse, there are ninety-nine who do nothing but create them) those who look in any such direction for the realization of their hopes leave

> out of the idea of good government its principal element, the improvement of the people themselves. One of the benefits of freedom is that under it a ruler cannot pass by the people's minds and amend their affairs for them without amending them. [Mill (1861), pp. 30-31]

Montesquieu's and Mill's remarks apply as equally to a company and its management as to a nation and its government because both subsist in people cooperating with each other in endeavors aimed at achieving and securing each person's well-being. As the venerable old saying goes, "We work to live; we do not live to work." Reforming manners and customs, whether in a nation or in a business entity, is a matter to be left to persuasion and education, not to coercion through the force of legislation, edict, and threat of sanctions. These latter might and often do produce the appearance of reforming behavior, but they do not really do so if people do not give their actual consents to them. Their personal maxims of prudence might dictate expressions of a façade of compliance, but simmering beneath this mere surface appearance there will arise resistance by passive aggression and cultivation of moral secession from the Society. With these come breakdown and disintegration of the Society in whose name such laws are imposed. As Mill also noted,

> When an institution, or a set of institutions, has the way prepared for it by the opinions, tastes, and habits of the people, they are not only more easily induced to accept it, but will more easily learn, and will be, from the beginning, better disposed to do what is required of them both for the preservation of the institutions and for bringing them into such action as enables them to produce their best results. It would be a great mistake for any legislator not to shape his measures so as to take advantage of such pre-existing habits and feelings when available. On the other hand, it is an exaggeration to elevate these mere aids and facilities into necessary conditions. People are more easily induced to do, and do more easily, what they are already used to; but people also learn to do things new to them. Familiarity is a great help; but much dwelling on an idea will make it familiar, even when strange at first. [*ibid*., pg. 7]

To properly understand what must be accomplished through education and persuasion and what can be accomplished through legislation and policy-making, one must understand what the free individual expects from a social contract and what he is willing to exchange to enter into it.

The general social-natural theory of the social contract was previously presented in Wells (2012). In this treatise the focus is upon the application of this theory to economic enterprises and the divers mini-Societies that are formed in order to carry out these enterprises. There is no "one-size-fits-all" universal social contract. Each social contract is determined by the individuals whose civic associations are to be co-determined under it. There are, however, a few general principles found in every functional social contract, and the distinguishing special clauses of all particular social contracts are made to stand under them. These special clauses are made to reflect the specific circumstances and situations that pertain to the contracting individuals.

There are several such specific circumstances and situations that come into consideration in any treatment of social contracting for civic free enterprise. Among them are circumstances and situations pertaining to: (1) the nonemployer capitalist entrepreneurs whose enterprises comprise the greater majority of all businesses in the U.S. [figure 1]; (2) the capitalist entrepreneur who is self-employed and employs wage laborers in an incorporated business (such as an LLC or other private corporation not recognized as a C corporation under U.S. law) in which he is a proprietor, shareholder, and wage laborer [figure 2]; (3) the self-employed capitalist entrepreneur who is proprietor of an unincorporated business in which wage laborers are also employed [figure 3]; (4) non-capitalist entrepreneurs whose enterprises consist of exchanging economic services for wages (or salaries) in an industrial conglomerate; this group makes up the great majority of the members

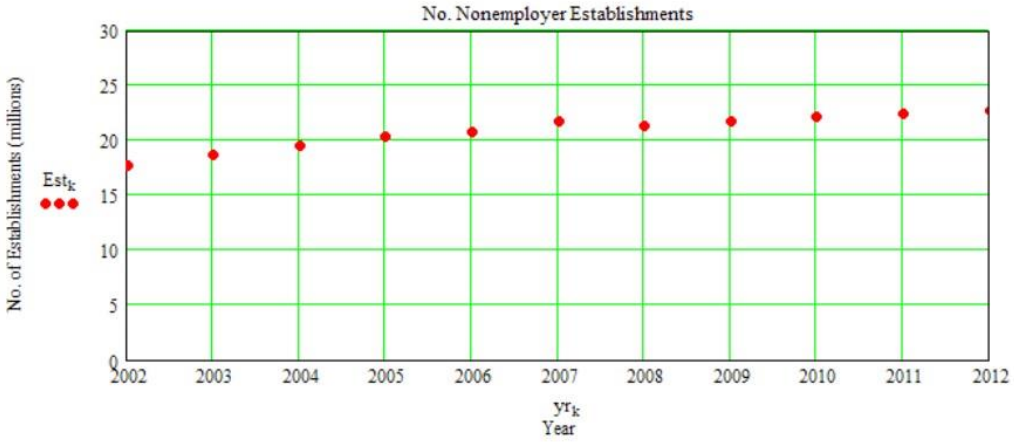

Figure 1: The number of nonemployer establishments (in millions) from 2002 to 2012. Source: Bureau of the Census, Censtats data base, 2015.

Figure 2: Number of incorporated self-employed entrepreneurs (in millions) from 1989 to 2009. Source: Hipple (2010).

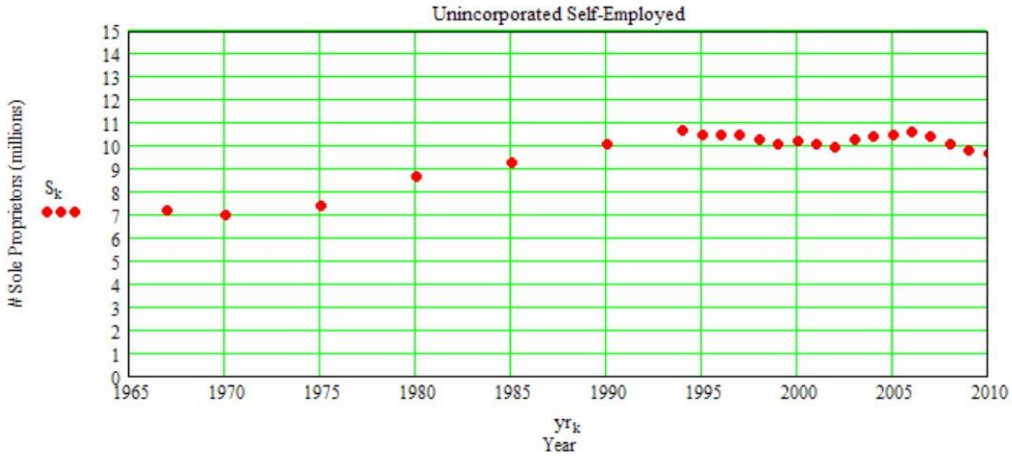

Figure 3: Number of self-employed entrepreneurs (in millions) owning unincorporated proprietorships and employing wage laborers from 1967 to 2010. Source: Hipple (2010).

Table I

Stakeholders in an industrial conglomerate

stakeholder mini-Society	member of the association?
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

of the U.S. civilian labor force[4]; (5) stakeholders who are members of an industrial conglomerate but are not proprietors or wage laborers; this group includes the shareholders of a publicly-traded corporation; (6) non-member stakeholders, i.e., people who have interests in a business but are not themselves owners or wage laborers of that business. This classification includes: (6a) lenders and creditors (including retirees and owners of bonds issued by the business) who rent capital (make loans) to the business or who are owed an income revenue from the conglomerate in exchange for past services; (6b) suppliers of goods or services that the business purchases but who are not owners or wage laborers in that business; (6c) customers, i.e., people who purchase goods or services from the business; and (6d) agents of government who derive an interest in the business because of their Duties as public servants. Table I summarizes this "landscape" of special interest parties whose interactions typically define the circumstances and environment in which an industrial conglomerate or nonemployer business must operate. Note that managers of the business are not broken out as a special interest group. That is because managers are wage laborers and, as such, are included in the Labor group category.

[4] Being a non-capitalist entrepreneur and wage laborer in an industrial conglomerate does not preclude an individual from being a capitalist entrepreneur in one or more other private enterprises. A capitalist is anyone who has and invests capital in order to realize an income revenue from that investment. For example, anyone who has a savings account or owns a Certificate of Deposit is a capitalist. Anyone who owns either a corporate or municipal bond is a capitalist entrepreneur. In all these cases, the person is a *stakeholder* in the industrial conglomerate or municipal body in which he invests but he is not a *member* of that industrial conglomerate or other entity because his capitalist enterprise does not go beyond being a *financial* capitalist. Anyone who owns stock shares in any publicly-traded corporation is a capitalist entrepreneur. In the majority of cases, wage laborers who also engage in capitalism as a private enterprise do not regard the latter enterprise as a "business" (although it actually is) and are not counted among the businesses counted in figures 1-3. Furthermore, many wage laborers hold down more than one job, which makes them members of multiple industrial conglomerates. Every person is a member of more than one mini-Society, a situation that greatly complicates the institution of justice in political government.

We must consider both the general principles of social contracting applicable to business mini-Societies and the special circumstances of these different classifications of stakeholders. I begin with the general principles.

§3. General Social Contract Principles

People whose interactions with each other are not regulated or moderated by reciprocal social contract commitments of Obligation to each other are said to be *mutually outlaw* to each other. The environmental relationship they have with each other is called a *state of nature* environment. As was explained earlier, each individual living in a state of nature environment is faced with a thorough-going lack of security. This means neither his life nor his possessions are secure against harmful intrusions and actions by others. The state of nature environment is prone to eruptions of violence and life in it is, as Hobbes famously said, "nasty, brutish, and short." A social contract aims to replace this environment with a more stable one in which members of an association aid one another in adverse circumstances and the collective powers of their persons are united and oriented in a more or less common direction. At the same time, the contract must be such that no individual suffers any loss of liberty that is not equally alienated by every other member of their association. The way in which this condition is effected is simply this: Each person agrees to alienate some of his *natural* liberties in exchange for *civil* liberties that will be guaranteed and protected by the entirety of the association. This latter is called the guarantee of *civil rights*. Civil liberties belong to each individual; civil rights are effected by the association as a whole acting in concert. The protection of civil rights is a *Duty* to which each member obligates himself.

Rousseau summarized this by stating a *condition* each member requires, as a *quid pro quo* for joining himself to the association, and by stating a *term* under which the other members agree to accept the individual as a member of their association. The condition states *the association will defend and protect with its whole common force the person and goods of each associate in such a way that each associate can unite himself with all the other associates while still obeying himself alone*. The term states *each associate is to put his person and all his power in common with those of the other associates under the supreme direction of the general will, and that each associate, in his corporate capacity, will regard every other associate as an indivisible part of their whole body politic*. The condition is the condition of civil liberty; the term is the statement of civil rights. When people socially coexist in compliance with the term and the condition, each person is called a ***citizen*** of the association and the association is called a ***Republic***.

Historically, the point upon which social contract theory has often run aground is the difficulty of determining the idea of "the general will." Rousseau, Kant, and numerous other theorists tried to come to grips with this idea and failed to adequately do so because each tried to base the idea on some metaphysical concept that lacked objective validity. The Critical resolution of the issue was presented in Wells (2012): the ***general will*** is *the unity in acting to improve the communal idea of ethical and moral perfection of the association through on-going processes of review, evaluation and refinement taking as their aliments all factors pertinent to the maintaining and sustaining of civil tranquility within the Community*. The logical essence of general will is that it is the process of judging judgments of Community governance. Indeed, the active process of determining and then enforcing the general will is the fundamental Duty of all forms of civil government, whether this form be the *political* government of a nation or the *management* of an industrial conglomerate. This has a number of key implications for the management of a business *as the system of determining its general will*. These will be discussed in detail later. However, it is appropriate to mention one of these implications now. It is this: the management of Enterprise includes in its system the establishment of a **justice system** because, deontologically, ***justice*** is *the negating of anything that breaches or contradicts the condition of a social contract*. The management of an Enterprise is not and must never be regarded as a system of rulership. It is a

system of governance by which is effected *civil liberty with justice for all* the entrepreneurs whose enterprises constitute the Enterprise. I do not mean by this *only* justice in the relationships among the entrepreneurs. The concept includes governance for achieving the economic goals of the Enterprise as well because if the Enterprise does not realize a sustaining condition of profit from its activities, its members cannot achieve the satisfaction of their personal economic goals that were fundamental constituents in their individual decisions to join the Enterprise in the first place. Profit and justice are inseparable Objects in an Enterprise. Any industrial conglomerate in which they are separated is not an Enterprise; it is an uncivic and un-Republican Institute.

The willing compliance with the determinations of the general will by each member of an Enterprise is a civil expectation and condition of the Enterprise Community. It is therefore a Duty to which each member must commit himself. This understanding was an implicit understanding of the early United States' citizenry that was noted by Tocqueville:

> It was never assumed in the United States that the citizen of a free country has a right to do whatever he pleases; on the contrary, more social obligations were there imposed upon him than anywhere else. No idea was ever entertained of attacking the principle or contesting the rights of society; but the exercise of its authority was divided in order that the office might be powerful and the officer insignificant, and that the community should be at once regulated and free. In no country in the world does the law hold so absolute a language as in America; and in no country is the right of applying it vested in so many hands. The administrative power in the United States presents nothing either centralized or hierarchical in its constitution; this accounts for its passing unperceived. The power exists, but the representative is nowhere to be seen. [Tocqueville (1836), pg. 71]

Fulfillment of this civic Duty was, indeed, one of the basic grounding conditions for the possibility of the sovereignty of the people in the early United States. That the concept of the sovereignty of the people was one both difficult and abstract accounts for the lack of such sovereignty in countless businesses and nations. Tocqueville also noted and commented upon this novel aspect of this novel nation:

> Whenever the political laws of the United States are to be discussed, it is with the doctrine of the sovereignty of the people that we must begin.
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> The principle of the sovereignty of the people, which is always to be found, more or less, at the bottom of almost all human institutions, generally remains there concealed from view. It is obeyed without being recognized, or if for a moment it is brought to light, it is hastily cast back into the gloom of the sanctuary.
>
> "The will of the nation" is one of those phrases that have been most largely abused by the wily and despotic of every age. Some have seen the expression of it in the purchased suffrages of a few of the satellites of power; others, in the votes of a timid or an interested minority; and some have even discovered it in the silence of a people, on the supposition that the fact of submission established the right to command.
>
> In America the principle of the sovereignty of the people is neither barren nor concealed, as it is with some other nations; it is recognized by the customs and proclaimed by the laws; it spreads freely, and arrives without impediment at its most remote consequences. If there is a country in the world where the doctrine of the sovereignty of the people can be fairly appreciated, where it can be studied in its application to the affairs of society, and where its dangers and its advantages may be judged, that country is assuredly America. [*ibid*., pg. 55]

One of the most significant contributors to uncivic free enterprise was the omission of this idea of sovereignty of the members in an industrial conglomerate. In its place was established an institution of monarchy and subjugation in the management of businesses inherent in the master-

servant relationship that was the social custom in pre-Economy Revolution America. But with that revolution, what we earlier saw Salinger call 'the mutuality of the relationships among free workers, masters, and journeymen' was lost [Salinger (1987), pg. 162]. It is incorrect to assume there was some villainous intent behind this loss. Human beings are satisficing decision-makers and simply mimicking some already-familiar custom or convention is one of the quickest and easiest means of coming to a satisficing decision. Examples of this habit of human nature are found all around us nearly every day; one only need look for them to see them. Toynbee wrote,

> Mimesis is a generic feature of all social life. Its operation can be observed both in primitive societies and civilizations, in every social activity from the imitation of film-stars by their humbler sisters upwards. . . . In primitive societies, as we know them, mimesis is directed towards the older generation and towards dead ancestors who stand, unseen but not unfelt, at the back of the living elders, reinforcing their prestige. In a society where mimesis is thus directed backwards towards the past, custom rules and society remains static. On the other hand, in societies in process of civilization, mimesis is directed towards creative personalities who command a following because they are pioneers. In such societies, 'the cake of custom' . . . is broken and society is in dynamic motion along a course of change and growth. [Toynbee (1946), pg. 49]

Mimesis is oriented through subjective judgments of taste and such judgments do not pause to rationally ponder and weigh objective consequences. The process of reflective judgment is impetuous, not rational. At the time of the Economy Revolution the sovereign position of the 'master' of a business was an unquestioned social convention and tradition. By maintaining this old convention as economic conditions in colonial America underwent change, the concept of economic sovereignty simply went unconsidered and 'sovereignty' – as that term was customarily used – was regarded as a political rather than an economic concept. By this omission, monarchy traditions in business were continued even as the Americans were throwing off monarchy in political governance. This was how the seeds of uncivic free enterprise were planted. For civic free enterprise to become a reality, the sovereignty principle must be made the convention in the sphere of economics and business in addition to that of political government.

These are general principles of social contracting for institution of an Enterprise and essential principles for achieving an economic system of civic free enterprise. But it is not enough to take into account only general principles without also accounting for the peculiar circumstances and special interests which distinguish between the divers classifications of stakeholders. Lurking in these considerations are issues of alienation of specific natural liberties and those civil liberties for which these are exchanged by the members. Put another way, these considerations go into determination of the fundamental nature of what is exchanged in order to transact a making of an Enterprise. Among the most essential of these considerations are ones involving Critical Ideas of ownership in the deontological ethics of Enterprise participation.

§ 4. The Circumstances of the Proprietor-capitalist

The founding of every business entity involves capital investment even though not every business entity has a proprietor. The individual proprietor is the historical prototype for nearly every other idea extending concepts of business ownership and management. In order to understand these extended concepts we must begin by understanding the proprietor-capitalist.

Free enterprise and capitalism emerged quietly in 15th century England and at first went more or less unnoticed by England's ruling classes. When they finally did notice it, they called it 'communism' tried to suppress it, quite correctly seeing it as a threat to the four centuries of feudal rule from the time of the Norman Conquest. But by the time they noticed it and became alarmed, it was too late for them to stop it. Durant tells us,

> by 1500 only 1 per cent of the population [of England] were serfs. A class of yeomen grew, tilling their own land, and gradually giving to the English commoner the sturdy independent character that would later forge the Commonwealth and build an unwritten constitution of unprecedented liberty.
>
> Feudalism became unprofitable as industry and commerce spread into a national and money economy bound up with foreign trade. When the serf produced for his lord he had scant motive for expansion or enterprise; when the free peasant and the merchant could sell their product in the open market the lust for gain quickened the economic pulse of the nation; the villages sent more food to the towns, the towns produced more goods to pay for it, and the exchange of surpluses overflowed the old municipal limits and guild restrictions to cover England and reach out beyond the sea. [Durant (1957), pg. 109]

Social conventions of ownership emerged with early English capitalism. In feudal England all land was 'owned' by the king according to conventions originally established by force of arms that went back to the Viking ancestors of the Norman conquerors. The nobles held their fiefs "for the king" and in turn granted fiefs within them to a gentry who served them. In effect, this feudal convention of 'ownership' was a system of conscription by which the king maintained his army and his power to rule. A nobleman disloyal to the king would lose his land by 'attainder,' which meant the king took back the land. Internecine and occasionally murderous rivalries within dysfunctional royal families eroded the power of the monarch over time. Incompetent rulers (for example, King John, whose incompetency resulted in the nobles forcing him to sign the Magna Carta) not only increased the coercive power of the nobles but planted seeds of a different kind of ownership convention in the minds of the noble class. There were termites eating away at the "the king owns it all" convention right from the time when William's eldest son began trying to usurp his rule over Normandy.

Even in the days of William the Conqueror, there were 'sokemen' – free commoners who were permitted to *rent* land from a landlord and even could be permitted to pass the 'right to rent' on to their heirs. Slowly over time, this 'right to rent' evolved into a 'right to own'. Younger sons of the nobility, who did not inherit land and title from their fathers, entered 'the gentry' and, likewise, were granted the right to possess land under a convention that evolved into a convention of ownership. From the disinherited gentry and the sokemen evolved the 'sturdy yeomen' of medieval England, and from their ranks emerged the first English capitalists in the 15th century.

England's new money economy enabled both capitalism and private ownership conventions to take root and to eventually overthrow feudalism. By the time America was being colonized in the 17th century, these conventions had taken solid root in the folkways of Great Britain and were brought to colonial America by the colonists. They are still with us today, firmly entrenched in tradition, more or less unchallenged in four centuries, and unchanged despite the enormous social and political implications of placing sovereignty in the hands of the citizens. What are these implications and what alterations in the concept of ownership in a Republic do they require?

As I have already noted, "a business" is an abstract Object. It is a commercial enterprise or Enterprise undertaken for purpose of obtaining profit from its activities. Standing under the concept of a business entity are numerous objects that in various ways "belong to" or "make up" a business entity. These include: (1) tangible physical assets – land, buildings, furniture, tools, inventories of supplies, finished goods inventories, &etc.; (2) laborers, i.e., the people whose individual enterprises comprise its operational activities; (3) intangible money assets – operating capital, revenue capital from its operations, expended capital spent on procuring the inventory of supplies and economic goods (including labor services) needed for its products; warrants of legal liabilities established by business contracting – for example, the right of the business entity to compel provision of agreed-upon labor services by employees; the right of wage laborers to compel payment of agreed-upon wages; the right of creditors to compel agreed-upon payments

for debts incurred; the right of capital investors to compel payments of agreed-upon dividends from the profits of the business; &etc. The deontological technical term for a legal liability is ***obligatione externa*** and the Duty to fulfill the agreed-upon conditions is a culpable civic Duty Kant called a ***perfect Duty*** [Kant (1785), 29: 617-618]. The scope of the concept of a business entity contains a many-fold diversity of tangible and intangible objects.

Which of these divers objects does the capitalist proprietor of a business justly possess, i.e., what does he rightfully *own* because of his capital investment? These items of property are the objects of his *civic interests* in the business. The traditional convention has it that he owns everything except his employees. This includes *liabilities* for debts as well as liabilities for payments of taxes levied on the business. This same convention also bestows upon the proprietor the right to control every aspect of business operations and to use or dispose of every tangible or monetary asset of the business as he chooses subject only to the laws of his Society (obedience to which is a perfect Duty for every citizen whenever the law is a *just* law). Under the traditional convention, wages paid to employees are regarded as the proprietor's money even though *in fact* he actually *alienates* his claim to this money when he and the employees agree to the terms of employment. It is especially in regard to this last part of the convention that its congruence with the social contract of an American Republic must be questioned and examined. At issue is *sovereignty* and its civil implications.

Anyone who spends a nontrivial amount of time exploring the various sorts of U.S. business entities defined or established *de facto* by the U.S. Code, various state codes, and U.S. tax regulations will discover that U.S. legal terminology creates a veritable hodgepodge of named entity types. One can get a feel for how extensive this legal labyrinth has become by examining the *57* subentries in *Black's Law Dictionary* under 'corporation' and 'partnership' [Garner (2011)].

It serves no useful purpose of this treatise to try to unravel the divers legal and tax nuances this involves, but it is important to present some set of logical classifications pertaining to social contract issues. Table II presents the classification terminology I use in this treatise. However, since the organization of business entities is empirically determined by their organizers, it is a mistake to presume there will never be new types of business entities created which do not neatly fit within current definitions. When such cases occur, they must be analyzed individually to ascertain whether they fit one of the classifications given here or if some new classification category should be logically defined to cover them.

§ 4.1 There are two classifications in table II pertaining to the proprietor-capitalist. I begin with the simplest case *viz*. the **nonemployer proprietor-capitalist**. This classification includes business entities in which there is only one capitalist/sole laborer and traditional family-operated businesses in which the workforce consists of one capitalist/laborer and unpaid family members (spouse and/or dependent minor children[5]). This is the single largest category of U.S. businesses.

Because of the absence of other entrepreneur-members (no employees, no shareholders), no intra-Society social contract issues exist in this business mini-Society. The enterprise involves only the proprietor's household mini-society. Accordingly, traditional conventions of ownership are congruent with a nonemployer proprietor-capitalist enterprise. It is not an Enterprise because

[5] It is not uncommon for some families to 'pay' (allocate a wage to) dependent minor children participating in the operation of the business. However, the children are typically claimed as dependents for purposes of the household's income taxes and do not file separate income tax forms. Therefore, the 'wages allocated to' dependent minor children are to be regarded as internal household economics and not as a commercial relationship. In regard to dependent minor children, some circumstances are homologous to apprenticeship training for the children while other such circumstances are simply a means for accumulating capital for future investment in the children's education (e.g. college) or as a means of providing children with startup capital to be used when they reach the legal age of majority.

Table II

Logical Classifications of Business Categories

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

its business operations are the economic enterprise of the proprietor-capitalist and there are no other member-persons engaged in their own independent economic enterprise involved in it.

The operations of the business enterprise do involve transactions and interactions with stake-holders who are not its members (table I). Here there are issues of social contract for the parent Society in which the nonemployer proprietor-capitalist lives. Most of these involve the culpable Duties of *obligatione externa*, the discussion of which comes later in this treatise because these are issues of general concerns not limited to only the nonemployer proprietor-capitalist. However, there is a social contract issue of particular concern to be raised here if only because it is one that present day U.S. statutes either ignore or treat improperly. This is the issue of what civil Duties, if any, are invoked in the event of a business failure.

Any business operates with a risk of failure due to either realizing an insufficient profit needed to sustain an adequate income revenue for the proprietor or to actual capital losses ('anti-profit') from its operations. The American social contract includes a civil right of equality of opportunity; this is part of what is meant in the American Declaration of Independence by the clause declaring "pursuit of happiness" to be "an unalienable right[6]." Pursuit of happiness is a civil liberty retained by every American citizen, this liberty being limited by *just* laws prohibiting particular actions (such as fraudulent representation, theft, murder, etc.). However, pursuing something does not imply the pursuer will necessarily catch it. Equal opportunity for the pursuit of happiness does not imply a civil right to equality of economic outcome. Social egalitarianism was an ideal of the French Revolution, not the American Revolution, and followers of John Maynard Keynes are not correct in their opinion that economic equality of outcome ought to be a civil right. The Keynesian ideal is grounded in ontological ethics and such a ground has only a *subjective* validity and cannot be made the basis of moral Community. Only *de*ontological ethics can provide that.

However, the followers of Milton Friedman are also not correct in regard to social *laissez faire* when an entrepreneur's business fails. At issue is what culpable liability general Society bears in

[6] The technical *Realerklärung* of "unalienable" is the condition of being something a person is unwilling to alienate although it is potentially within his capacity to do so. "Inalienable" is the condition of being absolutely beyond the ability of a person to alienate.

the event an entrepreneur's business enterprise is financially unsuccessful. *Laissez faire* 'Friedmanism' holds that it bears none at all, but this is provably false. The Friedman doctrine can trace its origins back to Vicar Townsend's pseudo-naturalism. The condition of the social contract pledges that the association will defend and protect with its whole common force the person and goods of each associate in such a way that each associate can unite himself with all the other associates while still obeying himself alone. But what does the phrase "defend and protect with its whole common force" mean in this context?

The meaning of this phrase in regard to an individual person is clear enough. People join in a social union with others in part to protect their own lives and health against threats and harms that are present in a state-of-nature environment. This part of the clause pertains to these sorts of basic welfare necessitations. But what does "defend and protect the goods" of an associate mean? To get a human-natural understanding of this we must look at the grounds in Duties-to-Self that are prior to association in a Republic and are the conditions for the latter's possibility. As a look-ahead to where this takes us, "defend and protect the goods" does not mean *provide* the individual with any minimal stock of tangible goods.

There are two distinct situations that must be considered. One pertains to original *admission* of a person into the body politic of a Republic. The other pertains to a person who is already a citizen of this Community. The first pertains to the original formation and on-going growth of a Republican Society, the second to its preservation.

The formative aspect is grounded in those Duties-to-Self motivating individuals to bind themselves to each other in the first place. Rousseau explained this in the following way:

> I suppose men to have reached the point at which the obstacles in the way of their preservation in the state of nature show their power of resistance to be greater than the resources at the disposal of each individual for his maintenance in that state. That primitive condition can then subsist no longer and the human race would perish unless it changed its manner of existence.
>
> But, as men cannot engender new forces, but only unite and direct existing ones, they have no other means of preserving themselves than the formation, by aggregation, of a sum of forces great enough to overcome the resistance. These they have to bring into play by means of a single motive power and cause to act in concert. [Rousseau (1762), pg. 13]

Consider a Republican association already in being whose members must consider a decision to either admit or not admit an outside person into their civil association. Clearly, if that outsider is a person whose contribution to the Society's "sum of forces" is a negative one – that is, if admitting this person causes a diminution rather than an augmentation of the "force" of the united body politic, then admitting him into the association would be contrary to civil Duty because this Duty requires at least the maintenance and, when possible, the growth of the corporate *Personfähigkeit* of the Community overall. The immigration policies of every Western nation recognize this. A Republic is not an open palisade; it is a closed Community that occasionally opens its doors to new members. Deontologically, the most frequent case of this – and the only one in which the body politic actually *assists* a potential new member to acquire the *Personfähigkeit* the union requires of its members – is the case of the minor children of its citizens who are reaching the age of legal majority. In this case, the rendering of assistance (through such means as, e.g., public education) is a civil Duty *to the citizen-parents*. A Republic is under no Obligation to admit to its membership any person who it has no reasonable doubt will be a perennial burden to itself.

The situation is otherwise in the case of a person who has already been a contributing member of the civil union in the past. Here there *is* a civil Obligation to render such assistance as may be necessary to restore that individual to some condition of circumstance where he may again be so.

This is where the "defend and protect" clause is invoked. But what is obliged as a civil right is not the restoration of the individual to his former condition or state. What is obliged is that the person be restored to such a condition where he is able to support and maintain *himself*, first of all, and *then* is able to contribute to the common force of the Republic in defending and protecting its other members. There are many detailed nuances contained in this ***principle of civil Obligation to assist*** but now is not the time to delve into these details. It is enough for the moment to establish the principle. It is *this* principle the *laissez faire* doctrine of Friedmanism contradicts. The non-employer proprietor-capitalist is one of the individuals who is ignored by a partial doctrine of social egalitarianism currently practiced in the United States. This ignórance is a deontological moral transgression because it violates the condition of the American social contract.

§ 4.2 Ownership issues are straightforward for the nonemployer sole proprietor capitalist because he is not only the sole proprietor but also the entire labor force of the business (with the earlier noted nuances of non-employee household participants). The case of the **employer sole-proprietor capitalist** has a sociologically important complicating factor, namely, the presence of non-capitalist wage laborers participating in the business entity.

Whether it is written and formal or unwritten and informal, there is a limited compact in effect within a business entity in this category. Oftentimes this compact goes no further than to specify agreements between employer and employee regarding the wage or salary to be paid to the employee and the days and hours the employee is expected to render his economic services to the business entity. It usually also specifies the nature of the labor to be performed. Because this is the compact most frequently used in U.S. business entities today, it is convenient to identify this sort of limited compact by the label **minimal employment compact** or MEC.

Such a compact is not a social contract because it does not meet the terms and conditions clauses necessary for people to commit to a union between the employer and employee or the employee and other employees. The MEC is thus somewhat analogous to a treaty between sovereign nations and results in an industrial conglomerate but not an Enterprise.

A customary governance structure within the industrial conglomerate is also usually implied and understood. The most common of these is one in which the proprietor-capitalist is understood to be the "master of the business" ("the boss") and is empowered to give instructions and orders to employees for work-related matters. Such is the case when the employer-employee compact is only the MEC. This is, of course, the monarchy governance form of business entity governance. It places the proprietor-capitalist in the role of the monarch of the business and the wage laborer employee in a subjugated position. This placement in effect creates a two-tiered class division between the proprietor and the employees. A primary issue for civic vs. uncivic free enterprise revolves around whether or not this system of business governance is congruent or incongruent with the social contract of the parent Society in which the business mini-Society is embedded. An industrial conglomerate based only on the MEC is not a Republic and so the issue of primary concern is whether or not it is congruent with a parent Society that is a Republic.

People are frequently passionate about situations and circumstances in their workplace. This is especially true in regard to disagreements and conflicts that are social or socio-economic rather than purely economic. Often an important contributing factor to these passions and behaviors that these passions provoke is the tendency of people to compare their circumstances and situations in the workplace with circumstances and situations found in, or which at least ideally they expect to be found in, the parent Society to which they belong. When that Society is politically governed by one system of governance but the workplace by another, that Society has a *mixed governance*.

Figure 4 illustrates the four most empirically frequent forms of governance arranged in a circumplex model with axes defined by factors of human personality and social intercourse. This model is explained in detail in Wells (2012), chapter 11, pp. 373-396. I refer you to this reference

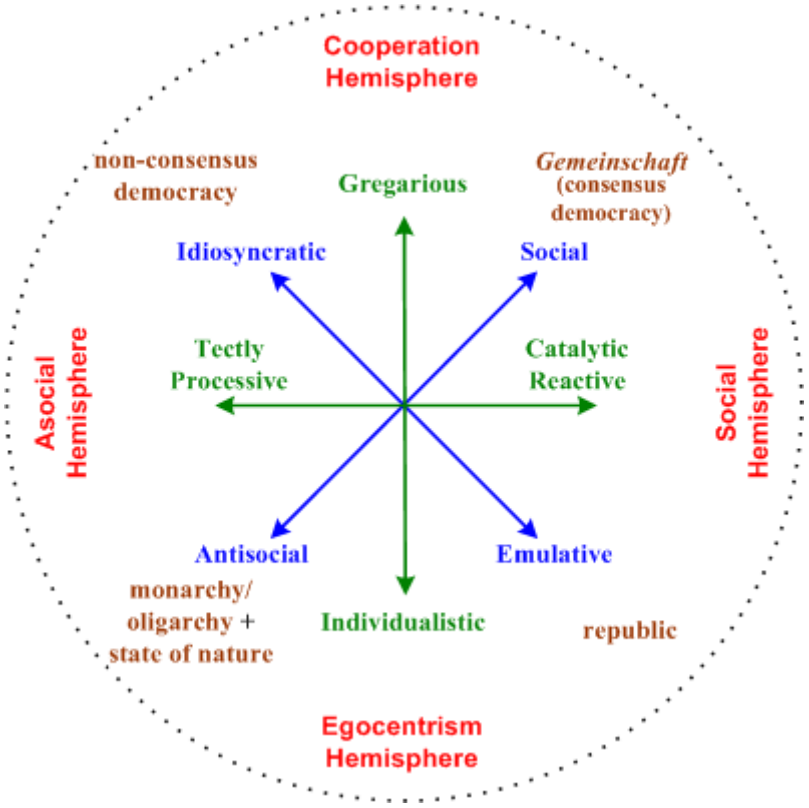

Figure 4: Circumplex model of the four most empirically frequent forms of governance. The circumplex axes are those of the D-PIPOS circumplex model of personality and social intercourse [Wells (2012), chap. 11, pp. 373-396].

for its detailed discussion. What I want to point out here is that a Republic is a social environment whereas monarchy/oligarchy governance is an antisocial one because it produces a state of nature relationship between a ruling class and one or more subjugated classes. A Republic is bound together in a social union by a general social contract but in monarchy/oligarchy there is no social contract between the rulers and the ruled. Monarchy/oligarchy institutions do not endure. Even before the American Revolution, the government of Great Britain was undergoing a foundational social change from absolute monarchy to its present constitutional monarchy, which is technically a form of non-consensus democracy and is an asocial form of government as shown in figure 4.

In the United States, from its founding to the present, the principles of political government and the customs of business governance have been at odds. The former are the principles of a Republic, the latter operates under the principles of monarchy/oligarchy. This produced labor issues of a socio-political nature and hindrances to justice and domestic tranquility in the U.S. from its very start. Historians Adams and Vannest wrote,

> With the spread of the Industrial Revolution . . . large bodies of workmen were assembled in one place, and began to be conscious of occupying a new position, and one by no means to their taste, in American society. As men do under such circumstances, they combined to protect their mutual interests. As unions were formed and strikes ensued, court after court invoked the law of conspiracy against them. A man, the courts ruled, might decline to work under certain conditions or for certain wages, but he had no right to prevent others from doing so or to form groups which would have such power. Both employers and the news-paper press were bitterly opposed to labor unions, and in one case, about 1835, merchants in Boston pledged themselves to drive striking workmen in that city into submission or

> starvation and subscribed a fund of $20,000 for the purpose. [Adams & Vannest (1935), pg. 657]

As Adam Smith had written six decades before 1835, "The masters, being fewer in number, can combine more easily; and the law, besides, authorizes, or at least does not prohibit their combinations, while it prohibits those of the workmen" [Smith (1776), pg. 58]. The institution of and tolerance exhibited for monarchy/oligarchy governance of industrial conglomerates has given rise to many problems and social issues of the most serious sort in America.

At the root of these issues are found ownership questions. As I said in chapter 2, there are at least two distinct enterprises at work within the business entity: that of a capitalist-proprietor and that of a non-capitalist wage laborer. The overall business operation is the outcome of the combination of these individual enterprises plus objects used in these operations (supplies inventory, finished goods inventory, operating cash, debt and rent liabilities, etc.). It is with these non-human objects used in the operation of the business where deontological ownership issues are found.

These issues arise because there are external relationships between the business entity, outside stakeholders (suppliers, creditors, political government agencies, etc.), and the political membership of the general Society in which the industrial conglomerate is embedded. Rent and/or taxes on buildings and land must be paid. Purchased supplies and services (e.g. telephone and/or Internet services, water, sewer, power and other utility services, etc.) must be paid for. Peculiar taxes (e.g., FICA, Medicare, sales tax) are levied on the business operation and must be paid. If the compact between employer and employee stipulates non-wage benefits such as a retirement plan or health insurance coverage, these must also be paid for. If a guarantee or warranty of some sort is offered with the goods or services the business provides, there is a potential liability for claims made against the guarantee or warranty. There may be outside services contracted for such as legal advice, tax advice, etc. At issue is: *Who is culpably liable for making these payments*? If the business has the least degree of commercial success, there is an income revenue from the sale of its goods or services and part of this revenue is used to meet the aforementioned liabilities as well as wage/salary liabilities. At issue is: *Who owns the revenue income of the business*?

If the answers to these questions seem obvious to you, it is only because the traditional legal conventions and practices of free enterprise make them seem so. When capitalism first began in feudal England it began in a social environment of absolute monarchy and social traditions that grew out of England's class-based feudal system. Under these conditions it was natural, from the satisficing nature of human decision-making and problem-solving, that the form of governance and conventions of ownership adopted for the new capital enterprises would be modeled after what had been the social conventions of England for centuries. Indeed, any other model would have been quite literally extraordinary. The adoption of this *political* model led to definitions by legal fiat in response to disputes and controversies over questions involving these ownership issues when these disputes and controversies inevitably arose. A Society conditioned to monarchy government is a Society where people are accustomed to government by class rulership. But a definition by legal fiat based on custom and tradition is not a deontologically grounded resolution of moral issues. All disputes and controversies arising in commercial relationships have their original roots in Duties-to-Self and the personal and private moral codes individuals construct for themselves in their manifolds of rules.

One should never underestimate the power of custom and tradition in human affairs. Mill wrote,

> All that makes existence valuable to anyone depends on the enforcement of restraints upon the actions of other people. Some rules of conduct, therefore, must be imposed, by law in

> the first place and by opinion on many things which are not fit subjects for the operation of law. What these rules should be is the principal question in human affairs; but if we except a few of the most obvious of cases, it is one of those which least progress has been made in resolving. No two ages and scarcely any two countries have decided it alike; and the decision of one age or country is a wonder to another. Yet the people of any given age and country no more suspect any difficulty in it than if it were a subject on which mankind had always been agreed. The rules which obtain among themselves appear to them self-evident and self-justifying. This all but universal illusion is one of the examples of the magical influence of custom, which is not only, as the proverb says a second nature, but is continually mistaken for the first. The effect of custom, in preventing any misgiving respecting the rules of conduct which mankind impose on one another, is all the more complete because the subject is one on which it is not generally considered necessary that reasons should be given, either by one person to others or by each to himself. People are accustomed to believe . . . that their feelings on subjects of this nature are better than reasons. . . . To an ordinary man . . . his own preference, thus supported [by others' opinions] is not only a perfectly satisfactory reason but the only one he generally has for any of his notions of morality, taste, or propriety [Mill (1859), pp. 4-5].

Uncivic free enterprise was born out of the social and political customs and traditions in practice at the time when capitalism was invented in medieval England. The question we who live in America today face is whether we shall choose to continue customs and practices put in place six centuries ago in another country or if we shall choose to forge new customs, traditions, and laws made for our own age and country. Upon our answer to this either the tradition of uncivic free enterprise will be continued or a new era of civic free enterprise will be forged.

Issues of ownership were made into a political battlefield during the great conflict of 20th century Western civilization; namely, the conflict between communism and the caricature of "capitalism" sketched by Marx and Engels. In point of fact, Marx never provides an explicit definition of what "capital" is in his book, *Capital*, although he devotes page after page to buying and selling. The so-called "economic theory" he espouses is based on two occult qualities he calls "value in use" and "value in exchange," both of which are supersensible notions of an occult 'something' which is supposedly a quality of "commodities." This idea lacks objective validity.

To Marx, capital is a form of money and he uses it to roughly mean profit created by a "capitalist" through a two-step transaction: (*i*) he first purchases a commodity from a seller; and (*ii*) he then turns around and sells that commodity to a buyer [Marx (1867), Part II]. Implicit in the argument is the notion that somehow a "capitalist" purchases the commodity for less than its "value" and resells it for more than its "value." For this argument to be objectively valid, there has to be objective validity for the idea that "value" is something *objectively* characteristic *of a commodity* rather than, as it actually is, something *subjective* in individual human judgments. Marx was a very skillful propagandist – and *Capital* is an example of propaganda *par excellence* disguised as economic theory – who artfully weaved a tapestry of a class of moral scoundrels he named "the bourgeoisie" – a term used for "capitalists who own the means of production." Hence the issue of ownership in commerce is introduced and made the basis of a class conflict.

In point of fact, *Capital* was written 20 years after Marx and Engels wrote *Manifesto of the Communist Party*, and his portrayal of "capitalism" and "capitalists" in the former was tailored to fit the latter and its political agenda:

> But does wage labor create any property for the laborer? Not a bit. It creates capital, i.e., the kind of property which exploits wage labor and which cannot increase except upon the condition of begetting a new supply of wage labor for fresh exploitation. Property in its present form is based on the antagonism of capital and wage labor. . . . To be a capitalist is to have not only a purely personal, but a social, *status* in production. Capital is a collective product, and only by the united action of many members – nay, in the last resort, only by

> the united action of all members of society – can it be set in motion. Capital is, therefore, not a personal, it is a social power. . . . You [bourgeois people] are horrified at our intending to do away with private property. But in your existing society private property is already done away with for nine-tenths of the population; its existence for the few is solely due to its non-existence in the hands of those nine-tenths. You reproach us, therefore, with intending to do away with a form of property the necessary condition for which is the non-existence of any property for the immense majority of society. In a word, you reproach us with intending to do away with your property. Precisely so; that is just what we intend. [Marx & Engels (1847), pp. 426-427]

Who would have ever imagined the innocent-looking twelve-year-old paperboy living next door who deposits 25¢ each week in his savings account at the bank is really part of a vast conspiracy of bourgeois exploiters of humankind? It is a testimony to Marx' skill as a propagandist that he was able to sell communism's Hegelian hogwash to so many people for such a long time.

There are deontological implications for the ownership issue when the parent Society is a Republic or desires to become a Republic. To explore them we set aside the usual impersonal mathematical abstractions where present day economic theory begins and re-center on those aspects of human nature which underlie the phenomenon of industrial conglomeration. The first and most rudimentary Idea of this is: *every person participating in the activities of an industrial conglomerate is an entrepreneur who is practicing his own economic enterprise*. Everyone, from the proprietor-capitalist to the guy who sweeps the floor, is engaged in his own enterprise and is engaged in it for the purpose of obtaining an income revenue from his labors.

An industrial conglomerate exists because its participants see it as a means of satisfying this purpose of individual income revenue. The activities, operations, and commodities found in it exist to serve a common purpose, namely, to produce an overall income revenue in excess of the costs incurred by these activities and operations. Things that do not further the common purpose, either directly or by removing hindrances to its furtherance, have no rational foundation in the business. When such things increase the costs of the business without potentially or actually increasing the income revenue, they are contrary to achievement of the common purpose and hinder satisfaction of the common interests of all the participants in the industrial conglomerate. If the business entity is a bakery, it is counterproductive nonsense to purchase an inventory of garden hoes. If the business entity is a retail clothing store, it is counterproductive nonsense to buy a wood lathe and install it in some back room of the store. I once knew the proprietor-capitalist of a small business who spent part of the operating cash of the company on some very nice paintings used to decorate the front lobby. Unfortunately, he was not an art dealer and his expenditures on these very nice paintings partially contributed to the eventual bankruptcy of the company. After the creditors foreclosed, he didn't even get to keep the paintings[7].

Personal interests of the participants can be served only through on-going *cooperations* with each other. Necessitated cooperation is not only a factor in making divisions of labor in a conglomerate but also necessitates making commitments to personal sets of *obligatione* for which each cooperating individual is culpably liable. There is some *obligatio* each person either explicitly or implicitly pledges to someone else (the pledgee). There are two such kinds of

[7] Diversion of capital stock into consumption stock – which is what this man was doing when he bought these decorations – is a frequent contributor to business failures both large and small. As his financial straits became more dire, this man approached me for a business loan. My observation that he wasted his capital on things like this was one factor in my decision to turn down his loan request. I figured that if he had a habit of wasting his own capital, he wouldn't hesitate to waste mine. He eventually called in my sister to help him untangle the company's books, bring its spending under control, and help him salvage what he could from the wreck. When he objected to one of her decisions by rhetorically asking, "Who owns this company, anyway?" she responded by naming the banks that were about to foreclose.

pledging: one in which the pledgee is also a participant in the conglomeration; the other in which the pledgee is not a member of the conglomeration. The former is designated *interior pledging* (*obligatio interior*), the latter as *external pledging* (*obligatio externa*). Understanding who is pledged to what and to whom in an industrial conglomerate is one factor in understanding deontological ownership in business entities.

If the industrial conglomerate is also an Enterprise there is another key factor. This one is almost but not quite recognized in its deontological significance by modern accounting practices applied to corporations. It is much less recognized for sole proprietorships. To explain what this factor is we must start with a deontologically correct idea of what a *Company* is and how the idea of a deontological Company differs from a company as an amorally defined legal entity.

A company regarded as an amoral legal entity (a company-by-law) is defined by *Black's Law Dictionary* [Garner (2011)] as "a corporation, partnership, association, joint-stock company, trust, fund, or organized group of persons, whether incorporated or not, and (in an official capacity) any receiver, trustee in bankruptcy, or similar official, or liquidating agent for any of the foregoing." This is a nominal definition made by legislative or judicial fiat and merely *labels* a corporation, partnership, etc. as a company. A deontological ***Company*** is *an industrial conglomerate constituted as a mini-Community and instituted as a Republic.* A Company is an Enterprise of enterprises operated according to a company principles function and it constitutes a corporate person. A corporate person is not the same thing as the legal entity called an artificial person. It is a mini-Community subsisting in the union of people who are morally bound (deontologically) to one another by a social contract.

Again, *ownership* is the relationship between a person and an item of property in which the person rightfully possesses the item even when the item is not actually in that person's physical possession. There are many items of property objectively associated with a Company. These are accounted and tracked as the assets and liabilities of the Company. Conventions and assignments of ownership within the context of a Company are therefore matters of accounting. Institution of civic free enterprise does require some changes in traditional accounting practices but not as many as one might suppose.

Table III

Typical Financial Assets and Liabilities Accounts

Assets Accounts	Liabilities Accounts
cash	notes payable
petty cash	accounts payable
temporary investments	salaries payable
accounts receivable	wages payable
inventory	interest payable
supplies	other accrued expenses payable
prepaid insurance	taxes payable
land	customer deposits
land improvements	warranty liability
buildings	lawsuits payable
equipment	bonds payable
bond issue costs	unearned revenues
goodwill	
contra assets	
capitalist's equity = total assets minus total liabilities	

Table III presents some typical financial asset and liability categorizations used in accounting practices. It is not within the scope of this treatise to offer to explain or teach the practice of accounting. There are many available textbooks on that subject written for high school or college level learners, e.g., Eisen (2013), Needles *et al*. (2011). An entire profession is devoted to its practices. There are, however, a few fundamental ideas pertinent to the topic at hand that can be adequately understood without professional training in accounting.

A financial asset is an economic good for which ownership of the item is assigned by convention to a company [*cf*. Garner (2011), def. 1 of asset]. Assets represented by the assets accounts labels in Table III are defined according to generally accepted accounting practices. A financial liability is a financial or pecuniary debt [*ibid*., def. 2 of liability]. Liabilities are stocks of owed wealth-assets (in the context of the real explanation of this term provided in the glossary). Many of them are in the form of that intangible wealth-asset called 'money'. The liabilities represented by the liabilities accounts in Table III are defined according to generally accepted accounting practices. Liability accounts track what wealth-assets are owed to whom.

With regard to a Company, perhaps the most fundamental departure from present generally accepted accounting practices is an ownership difference in the idea of *capitalist's equity* stated at the bottom of Table III. Capitalist's equity is not a term that appears in traditional accounting practices. Rather, the term used by accountants is *owner's equity*. I think the reason for distinguishing capitalist's equity from owner's equity is likely clear to you at this point. If the deontological issue at hand is ownership of the assets of a Company, it begs the question to define the difference of total assets minus total liabilities to be owner's equity. This is especially so in the case of a publicly traded stock corporation because this type of industrial conglomerate *has no deontological owners* but does have capitalist investors with *jus possessus* of particular property rights[8] (a point to which I return below when this category is discussed).

Perhaps the most basic principle of accounting is the principle of *balance* between assets and liabilities. Simply put, the monetary account of the sum of all financial assets and the monetary account of the sum of all liabilities must be equal. Capitalist's equity is a defined wealth-asset used to bring these into balance. It represents an augmentation (or diminution) of the amount of capital the capitalist has invested in the business entity. When Marx and Engels railed against "bourgeois property" and promised to "do away with it" in *Manifesto of the Communist Party*, assets of capitalist's equity was the "bourgeois property" they were promising to confiscate. When the Bolsheviks seized power in Russia in 1917, Lenin and his *hirdmen* extended this concept to, in principle, abolish *all* property rights of every kind for every person. However, this principle was never put into practice; the actual course of events was keenly satirized in Orwell (1945).

Invested capital is a form of property rented to the artificial person of a company or the corporate person of a Company. However, unlike a loan from a creditor to a borrower, there is no guaranteed amount of loan interest paid to the capitalist. Further, his capital is rented to the company or Company *with the understanding that the capital might not be returned to him at a later time*. This is what is known as "investment risk." Rent paid to a capitalist for use of his capital is called a ***dividend***. The dividend amount depends upon and is calculated from capitalist's equity. The capitalist-proprietor of a Company acquires, by the act of investment, *jus possessus* of a particular civil right, namely, the right to be paid a periodic dividend based on increases or decreases in capitalist's equity. Capital stock is that part of a capitalist's stock of goods in excess of what he requires for consumption in the short run and which he uses to produce an income revenue. That income revenue is what is called a dividend.

[8] *Jus possessus* is legally sanctioned holding in one's control. A property right is a particular civil right of property sufficiently describing the item(s) of property covered under the right. Like all civil rights, a property right only exists under conditions of a social contract. In a state-of-nature there are no civil rights.

The proprietor-capitalist also has *jus possessus* of other property rights. The question at hand is what these rights are because his proprietorship consists of items of property that he rightfully possesses but the use of which has been given *to the Company*. To answer this question, the first thing that must be done is to set out the distinction between the *management* of the Company and the *ownership* of Company assets. The real explanation of ownership was set out above. ***Management*** is ***the entirety of activities aimed at stimulating the leadership dynamic and then guiding and shaping the courses of all subsequent actions such that these actions accomplish the aims and meet the purpose of the managed enterprise*** [Wells (2010), chaps. 8-9]. Management pertains to the governance of the Company and, in particular, goes into the makeup of the *executive* branch of that governance.

A manager is an authority figure. An ***executive*** is ***anyone whose duty is the day-to-day governance of the leadership in one or more Enterprise mini-Communities in such a way that the Enterprise as a whole successfully executes the activities needed to realize the common purposes of the Enterprise***. The proprietor-capitalist has just title to the chief executive office of the Company because it was his capital that provided assets essential to the possibility of the operations carried out by the Company and *those assets procured by the use of this capital are justly owned by the proprietor-capitalist*. In a strict sense, the proprietor-capitalist *loans the use* of these assets to the Company and is in this context the Company's first and chief *creditor*. The Company could not operate without these capital assets and so the proprietor-capitalist's ownership of these assets is what entitles him to hold the office of chief executive. If this were not so, he could not exercise his just control over and disposition of these assets. The act of hiring an employee into the Company in no way constitutes a *transfer* of these assets to another person.

However, the proprietor-capitalist's *activities* as an officer of the Company constitute a wage-labor enterprise among the other wage-labor enterprises being carried out in the Company. In uncivic free enterprise the normal practice is for the proprietor to simply divert a part of or all of the profits of the company as his own revenue. Effectively, no difference is recognized between dividend payments and his wages. In civic free enterprise this difference must be recognized and the two forms of revenue must be formally distinguished because the deontological justifications of each are different. In effect, the capitalist-proprietor "wears two hats" – one as an investor, the other as a wage laborer. I include the capitalist-proprietor-as-wage-laborer in the next section because, *as a wage laborer*, there is no deontological difference between him and the other wage laborer entrepreneurs.

§ 5. The Circumstances of the Wage Laborer Entrepreneur

The vast majority of members of the U.S. labor force are wage laborer entrepreneurs. A wage laborer is any person employed in an industrial conglomerate whose labor services are exchanged for a wage (including that form of wage called a salary). Whether a wage laborer is also a capitalist is irrelevant to the classification. Any person can co-engage himself in both a wage earning enterprise and a capitalist enterprise. An example is a factory worker who diverts part of his wage income into securities investment or a savings account. The two types of enterprises are distinctly different enterprises under different deontologically ethical circumstances.

Traditions and laws governing wage laborer enterprise that have emerged over the centuries in the United States and Great Britain emerged from presuppositions and assumptions that followed from behaviors conditioned by monarchy/oligarchy government institutions. These traditions and presuppositions have been in place for so long now that they are utterly taken for granted by most people and few even imagine that any other practices are possible.

More than any other single factor, these traditions and laws produced the general climate of uncivic free enterprise that prevails in the U.S., Great Britain, and other Western countries. Part

of this climate has always included a class division, either explicit or implied, between employers and employed. In this division, the proprietor-capitalist is traditionally placed in the employer class. The lack of distinction between his income revenue produced by increases or decreases in capitalist's equity and his revenue produced by his wage laboring industry is a consequence of presuppositions that go into the practical makeup of this class division. Within corporations today the "master" mantle is passed down to the corporation's management officers.

Some Western countries, including the United States, like to regard themselves as "classless" Societies but are nothing of the sort no matter how much the people of these countries would like to believe their Society is "classless." Legal and business employment practices do in fact create *economic* class divisions regardless of whether or not *political* class divisions exist. All such divisions are inherently asocial at best and antisocial at worst. All such divisions are unjust under the social contract of a Republic and are productive of conflicts in the workplace and in Society. The nature of these conflicts produces conditions under which cooperation does not emerge out of competition[9] and a so-called "working class" finds itself subjugated to rulership by a minority of conglomerate members. Maxims of prudence rather than maxims of reciprocal Duty generally prevail in individual's self-determinations of their actions and behaviors under these conditions. This is because the nature of rulership is destructive to Community. Rulers incite individuals to choose pursuit of their own private special interests without regard to any common interests by which their Society coalesces into a Community. This produces a state-of-nature environment in the workplace moderated only by prudence and whatever social contract holds together the parent Society in which the industrial conglomerate is embedded. Sycophancy is a symptom often displayed in the behaviors of some individuals in such mini-Societies. It is a behavior not to be mistaken as an expression of loyalty to either the ruler or the conglomerate.

Class division presuppositions can be detected in Adam Smith's remarks about determiners of the wages of labor:

> In all arts and manufactures the greater part of the workmen stand in need of a master to advance them the materials of their work and their wages and maintenance till it be completed. He shares in the produce of their labor, or in the value it adds to the materials upon which it is bestowed, and in this share consists his profit. . . .
>
> What are the common wages of labor depends everywhere upon the contract usually made between these two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible. The former are disposed to combine in order to raise, the latter in order to lower the wages of labor.
>
> It is not, however, difficult to foresee which of the two parties must, upon all ordinary circumstances, have the advantage in the dispute and force the other into compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law, besides, authorizes, or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a master manufacturer, a merchant, though they did not employ a single workman, could generally live a year or two upon the stocks they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long run the workman may be as necessary to his master as his master is to him but the necessity is not so immediate.
>
> We rarely hear, it has been said, of the combinations of masters, though frequently of

[9] Cooperation arises out of competition under special conditions in the social environment. This is called Grossberg's Theorem [Grossberg (1978, 1980)]. Grossberg proved it is an apodictic consequence of social-natural behavioral dynamics. His proof also showed that in the absence of these conditions cooperation fails to arise out of competition. Competition *per se* is neither universally good nor universally bad.

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

Every year various sources publish statistics on the wages being paid for various categories of work. Most large companies and many medium ones base their wage offers to new employees and wage raises for current employees on these "market mean" statistics. I used them when I was employed as a manager and so did every other manager I ever knew. In corporations the practice is an almost universal condition of employment as a manager, often institutionalized in the so-called "human resources" policies of companies. In one corporation where I worked, the wage-setting practice was called "performance evaluation and ranking." The use of "market mean" statistics, minimum wage laws, and institutionalized policies to determine wages is the most typical way by which Smith's "tacit but constant and uniform combination" is effected today. At the same time, present day so-called "right to work" laws are the most common weapons used to "prohibit the combination of workmen." Things have changed very little since Smith's day. The practice is one of the most durable characteristics of uncivic free enterprise.

In England and in America, class division traditions and presuppositions developed by descent from the social structure of feudalism that prevailed in pre-capitalist England. One thing that all skilled propagandists know is that for propaganda to be effective there must be a few small grains of obvious truth mixed in with the blandishments, exaggerations, and deceptions constituting the main line of the propagandist's message. The latter inherit feelings of trust placed in the former. Marx knew this very well:

> In the earlier epochs of history we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations.
>
> The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.
>
> Our epoch, the epoch of the bourgeoisie, possesses, however, this distinctive feature: it has simplified the class antagonisms. Society as a whole more and more is splitting up into two great hostile camps, into two great classes directly facing each other – bourgeoisie and proletariat.
>
> From the serfs of the Middle Ages sprang the chartered burghers of the earliest towns. From these burgesses the first elements of the bourgeoisie were developed. [Marx & Engels (1847), pp. 419-420]

You should note the skill with which Marx segues from the *fact* that feudal Societies existed to his *claim* that "bourgeois" and "proletariat" classes exist. He never tells us just exactly who these "bourgeoisie" are and who this "proletariat" is. He leaves it to the reader who feels he has been or is being unjustly treated to decide for himself, "I am one of the proletarians" and to define for himself who among his fellow men are "the bourgeoisie." It is true that traditions and attitudes that were commonplace in the feudal Societies of Europe were passed unquestioned into business practices of uncivic free enterprise when capitalism was invented. This does not mean a class of bourgeoisie and a class of proletarians exist, but if you think they do and if you also think you are a member of a proletariat class then you are ready to accept most of the rest of Marx' message. *Manifesto of the Communist Party* is not a challenge to "the bourgeoisie" to reform their evil ways; it is propaganda for an ideology capable of recruiting committed members to a Communist

political party. Communism's recruits were never "the starving masses" of Europe; they were intellectuals, children of prosperous businessmen, students, disgruntled but not-starving wage earners. Some were clergy later surprised to be told they were "bourgeois." As Eric Hoffer wrote,

> For men to plunge headlong into an undertaking of vast change, they must be intensely discontented yet not destitute, and they must have the feeling that by the possession of some potent doctrine, infallible leader or some new technique they have access to a source of irresistible power. They must also have an extravagant conception of the prospects and potentialities of the future. Finally, they must be wholly ignorant of the difficulties involved in their vast undertaking. [Hoffer (1951), pg. 11]

There are many purposes people seek to achieve by voluntarily joining themselves to a group of others and making a self-commitment to govern their actions according to a social contract; but being subjugated by rulers is never one of those purposes. Rousseau remarked,

> Since no man has a natural authority over his fellow, and force creates no right, we must conclude that conventions form the basis of all legitimate authority among men.
>
> If an individual, says Grotius, can alienate his liberty and make himself the slave of a master, why could not a whole people do the same and make itself subject to a king? There are in this passage plenty of ambiguous words which would need explaining; but let us confine ourselves to the word *alienate*. To alienate is to give or to sell. Now, a man who becomes a slave of another does not give himself; he sells himself, at least for his subsistence; but for what does a people sell itself? A king is so far from furnishing his subjects with their subsistence that he gets his own only from them; and, according to Rabelais, kings do not live on nothing. Do subjects then give their persons on condition that the king takes their goods also? I fail to see what they have left to preserve. [Rousseau (1762), pg. 7]

Commercial association in an industrial conglomerate does not extend so absolutely into the scope of an individual's life as feudalism extended into the lives of serfs, but in the vast majority of cases the purpose of engaging in wage labor enterprise *minimally* extends to satisfying the requirement for consumption revenue upon which subsistence for the entrepreneur and his family depend. This minimum rarely satisfies most individuals and the overwhelming majority of people seek greater perfection of the tangible powers of their persons for extending their liberties of action in regard to individual pursuit of happiness. There are but very few people who by personal choice stand as exceptions to this.[10]

The tangible power of any Society, including any commercial mini-Society, depends on the tangible *Personfähigkeit* of each of its individual associates. If the Society overall is to achieve a greater level of general security, civil liberty of action, a more satisfying state of general welfare, and greater insurance of domestic tranquility for its members, all of these benefits depend upon improving these factors for its labor force. There is much truth in Mill's remark that

> The worth of a State, in the long run, is the worth of the individuals composing it; and a

[10] The few exceptions to this are found only in individuals whose personal circumstances markedly depart from the social norm. One example is the individual whose returns from capital investments alone suffice to satisfy his consumption; such a person is sometimes called "independently wealthy." If he engages in labor enterprise in conjunction with others at all, his purpose might be for companionship or a pleasure he derives from the practicing of his enterprise (which makes his labor more of a hobby than anything else). Another and exceptionally rare situation is that of an individual who for personal reasons chooses to live a life of asceticism. Legends of Socrates' life seem to suggest he was a person who might be described as a "comfortable ascetic" [Diogenes Laertius (date unknown), vol. I, pp. 148-177].

> State which postpones the interests of *their* mental expansion and elevation to a little more of administrative skill or that semblance of it which practice gives in the details of business; a State which dwarfs its men in order that they may be more docile instruments in its hands even for beneficial purposes, will find that with small men no great thing can really be accomplished; and that the perfection of machinery to which it has sacrificed everything will in the end avail it nothing for want of the vital power which, in order that the machine might work more smoothly, it has preferred to banish. [Mill (1859), pg. 97]

In Mill's remark it matters not if "the State" is a political nation or an industrial conglomerate. His remark leads to the implication that institution of an Enterprise is to the greater local benefit of any industrial conglomerate. But beyond this there is an additional implication for common-wealth in the parent Society in which mini-Communities of Enterprise are embedded. Adam Smith touched upon this point:

> Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer to this seems at first sight abundantly plain. Servants, laborers, and workmen of different kinds make up the far greater part of every great political nation. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No nation can surely be flourishing and happy of which the far greater part of the members are poor and miserable. It is but plain equity, besides, that they who feed, clothe, and lodge the whole body of the people should have such a share of the produce of their own labor as to be themselves tolerably well fed, clothed, and lodged. [Smith (1776), pp. 69-70]

This quotation comes directly from the book some have called "the bible of free enterprise," yet when this maxim is recommended or even quoted it is more usual than not to hear political propaganda, from factions who favor the continuation of traditional practices of uncivic free enterprise, calling it "socialism" or even "communism." This is nothing but a continuing echo of the doctrine of *laissez faire* that arose in Great Britain and America at the end of the 18th century – a doctrine inimical to the survival of a Republic because it promotes and advocates tolerance of outlaw mini-Societies within its greater Society. In this context it is instructive to quote remarks made by Thomas J. Watson Jr., the legendary chairman and CEO of IBM during its era of greatest growth and prosperity:

> To be sure, the rights and guarantees that the average man believes in and insists upon may interfere, to some degree, with our ability to manage our enterprises with complete freedom of action. As a result, there are businessmen who either ignore or deny these claims. They then justify their views by contending that if we were to recognize or grant them, the whole system of free enterprise would be endangered.
>
> This, it seems to me, amounts to an open invitation to exactly the kind of government interference that businessmen are seeking to avoid. For if we businessmen insist that free enterprise permits us to be indifferent to those things on which people put a high value, then the people will naturally assume that free enterprise has too much freedom. And since the people have voting power, they will move against free enterprise to curtail it in their own interests. They do this, however, not because they are opposed to free enterprise but to obtain it and, in some cases, to protect the rights they believe themselves entitled to under a free enterprise system. . . .
>
> What we must always remember is that countries and systems exist for the benefit of their people. If a system does not measure up to the growing expectations of those people, they will move to modify or change it. To keep faith in our business system and to help build our country, the best thing we can do is to make our system work so that everyone shares fairly in it. We won't build good citizenship and we won't build a strong country by holding people back. We will build by helping people to enlarge their goals and to achieve

> them. [Watson (1963), pp. 89-94]

What Watson advocated is institution of *civic* free enterprise. This requires institution of civic Enterprises – an institution which demands conditions within an industrial conglomerate under which the wage laborer entrepreneur is not just an employee but also a *citizen* of the Enterprise. This is only possible if there is a social contract to bind a mere conglomerate into a united Republic of commerce with Republican governance of that Enterprise-of-enterprises.

The root challenges to accomplishing this lie in: (*i*) the organization of the governance of an industrial conglomerate as a Republic; and (*ii*) deontologically just conventions for making the determinations of ownership for the assets of the Enterprise. The first challenge calls for making an institution of joint civic enterprises that respects civil rights guaranteed to all the employees of the Company. The principle of this institution differs hardly at all from the political Idea penned by Thomas Jefferson:

> We hold these truths to be self-evident, that all men are created equal; that they are endowed by their Creator with certain unalienable rights; that among these are life, liberty, and the pursuit of happiness. That, to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed; that, whenever any form of government becomes destructive of these ends, it is the right of the people to alter or abolish it, and to institute a new government, laying its foundations on such principles, and organizing its power in such form, as to them shall seem most likely to effect their safety and happiness. [Jefferson (1776)]

The principle is easy to state, difficult to realize. In almost two and a half centuries no country on earth, including the United States, has been altogether successful in its implementation and very, very few industrial conglomerates have approached becoming a business Republic. History testifies that the issues in instituting good governance are manifold yet men most often fail to adequately appreciate the challenges they present. It is as James Madison wrote:

> But what is government itself but the greatest of all reflections on human nature? If men were angels no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered over men by men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. [Hamilton *et al*. (1787-8), no. 51, pg. 288]

Neither monarchy/oligarchy nor non-consensus democracy meet the control-itself clause. In the monarchy form the greater body of the governed is subjugated; in non-consensus democracy, even with its best efforts, a minority is subjugated by a majority. In its actual implementations a non-consensus democracy in fact usually ends up being a form of governance in which oftentimes a minority rules over a majority. The latter is something that Mill pointed out quite definitively and demonstrated by argument beyond reasonable doubt:

> A completely equal democracy, in a nation in which a single class composes the numerical majority, cannot be divested of certain evils; but those evils are greatly aggravated by the fact that the democracies which at present exist are not equal, but systematically unequal in favor of the predominant class. . . . Democracy as commonly conceived and hitherto practiced is the government of the whole people by a mere majority of the people exclusively represented. . . . But it is not only a minority who suffer. Democracy thus constituted does not even attain its ostensible object, that of giving the power of government in all cases to the numerical majority. It does something very different: it gives them to a majority of a majority who may be and often are but a minority of the whole. [Mill (1861), pp. 75-76]

To see the truth of Mill's assertion in action all one need do is look at the present U.S. Congress in action. Our democratic elections merely hand the power to rule by coercion to one or another minority troop of antisocial and often predatory baboons we call congressmen and senators.

Consensus democracy, otherwise known as *Gemeinschaft* governance (figure 4), is in many ways almost ideally desirable. Unfortunately, this form of governance becomes impracticable as soon as the population grows beyond a very small number of people. It suits a group of close friends or a small tribe but breaks down rapidly through weight of numbers or when that group comes into frequent and close interactions with other people. It can suit a small little Company if the deontological ownership issues are satisfactorily settled by consensus convention but will cease to be successful when the Company grows beyond its small-sized personal intimacy.

This leaves only governance by Republic as a practicable alternative for Company governance of an Enterprise. A large fraction of the rest of this treatise is devoted to institution of Enterprise as a Republic.

This brings us to a discussion of deontological ownership conventions for the assets of an Enterprise-of-enterprises. Here there is no one-size-fits-all-cases formula suitable for all the vast diversity of types of businesses. What must be done in place of any dogmatic and Platonic recipe is to seek out practical principles of ownership conventions for Company assets which can then be applied to divers special cases of business Enterprise.

The deontologically proper ownership conventions for some of these assets are straight-forward, and a few examples have already been mentioned. Land, buildings and initial stocks of cash, supplies, and equipment are among them. Where the issues become more challenging is in the allocation and distribution of revenue income from business operations. Among other things, business income revenue is used: (*i*) to meet payroll liabilities; (*ii*) to pay dividends accrued by capitalist's equity growth; (*iii*) to replenish the stock of operating cash; (*iv*) to pay taxes and accounts payable; and (*v*) to replenish inventories of supplies or acquire new pieces of equipment and furnishings (e.g. desks, chairs, meeting tables, computers, etc.). The diversity of consumption requirements for such items in different businesses makes it impracticable to try to pre-define any one single list of uses by which a business income revenue is consumed.

Complicating the problem is the fact that both income revenue and outflow of expenditures are inconstant. During times when income exceeds expenditure so that the business produces a profit, this success is the consequence of joint enterprises and is only possible because of these cooperations. The Company then faces the happy issue of determining how to equitably distribute the rewards of its success among its stakeholders. But during times when income revenue falls below outflow of expenditures the problem becomes that of determining *how the Enterprise Community is obliged by its social contract to distribute the hardships that come from defective business results*.

Here is where some of the manifold defects of monarchy/oligarchy company governance are seen and felt most acutely. The standard practice of fixed wages for employees often motivates the monarch to preserve his own enterprise during hard times by laying off some fraction of the workforce. This is completely contrary to the fundamental term found in all social contracts, *viz*., that every member of the association, in his corporate capacity, will regard every other associate as an indivisible part of the whole. Under monarchy/oligarchy there is a class division between the rulers and the ruled, and between these two distinct groups there is no social contract. Deontologically, the monarch commits no moral transgression when he lays off part of his workforce. But under the governance of a Republican Enterprise, layoffs are always nothing else than a deontological crime because the laborer who is expelled from the Enterprise because of income revenue shortfall is unjustly cut off from the Enterprise Community. Traditional practices regarding this issue are, however, nothing else than the product of traditional attitudes of a

convention and are in no way the only possible tactic for dealing with defects of profit. One example of a quite different tactic was presented by the Hewlett Packard Company in the 1970s and '80s. It was called "the nine-day fortnight" and I will discuss this tactic in due course later in this treatise. Here let it be sufficient to say that the tactic preserved the Community of the Hewlett Packard Enterprise, kept faithful adherence to that Company's social contract, and even proved to be advantageous to the Company's success when recessions that necessitated it passed, improved business conditions returned, and the Company returned to a full work schedule.

Once any individual becomes an employee in an Enterprise, this does not constitute an entitlement of perpetual employment any more than citizenship in the United States is an entitlement to perpetual citizenship. Citizenship status can be revoked for cause, *e.g.*, commission of a felony. An employee-citizen enjoys the protections and civil rights of the Enterprise but in return the body politic of the Enterprise requires individual employees to competently practice their particular enterprises for the overall welfare of the Enterprise. Using the now somewhat quaint phrase of the 18th century, the term of employment is "for good behavior." Failure to perform one's job, commission of a felony, chronic absenteeism, and other typical grounds for termination of employment remain just causes for terminating the membership of an employee. The major difference characteristic of an Enterprise is that every case of possible termination of employment is subject to judicial due process and it falls to the judicial branch of the governance of the Enterprise to hear and judge cases of possible employment termination.

For example, the Hewlett-Packard Company prior to around 2001 had such a system of due process although they did not refer to it as involving either a judicial branch of Company governance or as a system of due process. The Company took many steps to prevent arbitrary firings and no manager could fire an employee without due process and the approval of judicially higher authorities within the Company. HP managers were not masters or rulers. All this changed after 2001 due to the actions of an incompetent and predatory new CEO who destroyed the HP Enterprise and its civil Community. Hewlett Packard never recovered from her actions and the entity called 'HP' left in her wake is not the same entity it was before monarchy destroyed them.

In one respect, however, the social contract of an Enterprise Republic is different from the social contract of a political civic Community. In a political Republic, once a person is admitted to citizenship that person is not at liberty to break his pledge to faithfully carry out his Duties as a citizen unless that Society perpetrates and/or perpetuates violations of the social contract. In the latter case, he is free to withdraw his allegiance to the Society, an act which is called *moral secession*. In an Enterprise Republic, on the other hand, any employee is at civil liberty to give up his employment with the Company for any reason he deems fit. Joining in the association of an Enterprise Republic does not commit a person to remain in it for life.

In brief summary, then, the circumstances of the wage laborer entrepreneur are circumstances calling for fundamental changes in the governance of a Company and very careful deontological assessment of property rights for Company assets. Indeed, the simplest way to begin the latter is to begin by first regarding all assets as Company assets and proceeding from there to developing deontologically just conventions for determining ownership of these various assets.

If such radical reforms are to be possible, a peculiar type of education is necessary for both the capitalist-proprietor and the non-capitalist wage laborer to replace attitudes and suppositions that centuries of economic practices have engrained in people's thinking. For the proprietor, princely attitudes, suppositions, and all habitual contexts of paternalism must be made to give way to an understanding of citizenship in a Republic and of what Critical authority and leadership are. For the non-capitalist wage laborer it must be recognized that there is no entitlement that comes from being a worker. We are all workers when we engage in commercial enterprise. What must take the place of traditional attitudes toward jobs and work is the attitude of entrepreneurship. An

Enterprise-of-enterprises is possible only if those who practice their enterprises understand themselves to be entrepreneurs and understand what it means to be one. These are formidable issues of commercial education and the challenges inherent in meeting them must not be underestimated.

§ 6. The Circumstances of Partnering Capitalists

By the term *partnering capitalists* I mean *two or more capitalist entrepreneurs who cooperate as joint proprietors of a business and share in its financial interests*. In table II there are three logical business categories which involve partnering capitalists: (*i*) nonemployer partnering capitalists; (*ii*) employer partnering capitalists; and (*iii*) close corporation partnering capitalists. Social contract considerations for all three involve only minor variations in the concept of the proprietorship of a business. Partnering capitalists constitute a special mini-Community within the mini-Society of a business and so long as a social contract binds partnering capitalists to one another in cooperation and common interests, they can be treated in external perspective as a single corporate person and a ***corporate proprietor***. By the latter term I mean *the concept of regarding a mini-Community of partnering capitalists as if they constituted a logically singular proprietor*. If they are few enough, governance of their partnership can be made *Gemeinschaft*.

Because as a mini-Community partnering capitalists jointly function as a proprietor, it is usual that one or more of them also hold wage laborer positions as executives. One of them will usually be the chief executive officer (CEO)[11] of the business. Such jobs, however, are separate from the proprietor function and wages paid for these labors is distinct from dividends based on capitalist's equity paid to the partnering capitalists as a group. The wage is peculiar to the individual, but the dividend is peculiar to the corporate proprietor. The distribution of dividends among them is made according to whatever agreement they have among themselves and is usually based on how their shares of capital stocks of goods are divided among themselves.

The simplest case is that of the nonemployer partnering capitalists Enterprise. Here there are no laborers involved in the Enterprise other than the partnering capitalists themselves. This case is the industrial conglomerate homologue of the nonemployer sole proprietor-capitalist. Many small family-owned-and-operated businesses belong to this category. To cite one example for which your author personally knew all the principals very well, during the Great Depression there was a small bakery business located in the town of Maquoketa, IA, named the Morning Glory Bakery. It was owned and operated by a father, mother, and their four adult children who jointly made up its entire workforce. This particular family was so closely knit that the questions of "who owns this business?" or how each was to share in the profits were never asked. This particular Enterprise operated under *Gemeinschaft* governance rather than as a Republic and the family regarded the business as "our business" and regarded all of its revenue income and expenditure outflows as family revenue and expenditures. Not every nonemployer partnering capitalists Enterprise is as closely knit as this one was, and many do have specifically determined divisions of profits, but the example can serve as an ideal for the idea of a corporate proprietor insofar as the relationships among the partnering capitalists approaches *Gemeinschaft* governance.

The next more complex case is that of the employer partnering capitalists Enterprise. Here the difference is the presence of non-capitalist wage laborers in the Enterprise. It is the homologue of the employer sole proprietor-capitalist case. There are now two social contracts present in this form of civic free enterprise. One exists for the *entire* wage-earning labor force and subsists in a justice system operating in its internal Society. The other social contract is internal to the

[11] See the glossary for the Critical *Realerklärung* of chief executive officer. The Critical explanation differs from the legal definition of chief executive officer given in *Black's Law Dictionary*. The latter makes assumptions about how the industrial conglomeration is organized that do not necessarily hold true in a Company's organization. In particular, the legal definition assumes a hierarchy in company organization.

association of partnering capitalists (in their non-wage earning roles) and governs their special association independent of the non-capitalist members of the Enterprise.

These two cases differ from the third case, that of the close corporation partnering capitalists, from: (1) the legal standpoint of the tax code for the parent Society in which the Enterprise is embedded; and (2) the legal establishment of limited liability for the type of damages that may be recovered, the legal liability of particular persons or groups, and the time during which a legal action may be brought before a court [Garner (2011), limitation-of-liability act].

The first two categories refer to unincorporated businesses and mutual companies, the third to corporations. The legal distinctions go primarily to how the business Enterprise and its participants are taxed and to liability for debt recovery. In the U.S. a *potpourri* of special tax cases has been instituted over time. Examples include businesses defined as C corporations, S corporations, mutuals, and limited liability corporations (LLCs) under the U.S. tax code. However, what sets all three categories apart from those of the next section is the closed ownership of capitalist's equity by the mini-Community of capitalists (the corporate proprietor). The shares of stock in the corporation are not publicly traded, and this is basically what is meant by saying the corporation is a close corporation as defined in *Black's Law Dictionary*. The principal commonality among them is grounded in the concept that the capitalist entrepreneurs are partners, i.e., they know each other and their capitalist enterprises voluntarily cooperate with one another. Carnegie and his capitalist partners in the Carnegie Steel Company exemplify partnership in a close corporation. Perhaps one of the best known partnerships in American business history was that of Richard W. Sears and Alvah C. Roebuck, who formed a partnership in 1891 to found A.C. Roebuck & Company (renamed Sears, Roebuck and Company in 1893). Yet another example was provided by the partnership of William Hewlett and David Packard in founding the Hewlett Packard Company in 1939. The great majority of all publicly traded corporations today began as one or another of these three categories of partnerships.

In this section, the discussions above specifically refer to Enterprises – i.e., industrial conglomerates governing themselves according to social contract requirements for civic free enterprise. Historically there have been, and there are today, many business entities operating under uncivic free enterprise and internally governed by monarchy/oligarchy hierarchies. These divers cases can be regarded as uncivic homologues of the three categories discussed in this section or the employer sole proprietor-capitalist category from the previous section. What distinguishes them from their civic homologues is their defect in social contracting and adherence to the uncivic traditions and presuppositions characteristic of uncivic free enterprise. The distinction is one between deontologically amoral or immoral behaviors found in the uncivic categories and the deontologically moral foundations and behaviors made to operate in the civic categories.

§ 7. The Circumstances of Publicly Traded Corporations

The early joint stock companies were partnerships of the sort described above by the category of close corporation companies. Their stockholders were proprietors in the context just described. The usual reason they formed their partnership was because the capitalization requirements of the business were more than one individual could supply and the risks involved in its operation were higher than prudence would dictate an individual capitalist should undertake by himself.

In the U.S. the idea of corporations in which the shares of stock were publicly traded mainly grew out of large public works projects. Canal projects in early 19th century America were among the first of these, and alongside these projects grew business needs for banks with larger capitalization and for insurance companies. Canal projects, banks, and insurance companies, along with government bond trading, constituted the main securities traded on the early securities exchanges in the U.S. The first major private-business companies requiring capitalizations on par

with large public works projects in the U.S. were the railroads; railroad stocks were the first of this species of non-partnership industrial conglomerate to appear in the U.S. During the American industrial revolution other types of innovative business enterprises that required a great amount of capital to establish were invented and the tactic of expanding the number of potential share-holders (thus increasing the supply of capital) through publicly-traded stock securities was an important innovation in financing these new kinds of business enterprises. The establishment of publicly traded corporations was gradual over the first two-thirds of the 19th century. This form of business establishment did not see its great expansion until the period from 1870 to 1910 when the passage of limited liability legislation made the balance of risk vs. return attractive to more members of the public. Even then some capitalists (*e.g*. Andrew Carnegie) shunned them.

Like their close corporation counterparts, typically the founders of these new corporations were men who had no intention of sharing power or control of the business with the "speculators" who supplied a large fraction of the business capitalization. The founders typically intended to be "owners" of their new enterprises in very much the same old monarchy/oligarchy tradition[12]. Founder-capitalists, and in some cases major financier-capitalists fronting start up capital, made up the corporation's first board of directors, and usually the innovating founders also occupied the corporation's CEO and other top management positions. Because they viewed themselves as the owners of the company, it was a small step in thinking – and very good propaganda for attracting speculators – to label all shareholders as "owners" of the corporation. As I will discuss below, this is nominal ownership-by-fiat and not social-natural *real* ownership.

In earlier times, borrowing money was the usual means of raising capital founders themselves could not afford to "front." The great benefit of stock capitalization is that the capital it raises is not debt and does not have to be repaid eventually. The speculators, almost all of whom had no actual interest in personally operating the business, could make their profits through dividends and through trading their stock securities on the stock exchanges. On the whole, stock ownership for most public shareholders was a riskier analog to depositing their money at interest in a savings bank but without the surety of a locked-in interest rate paid on bank deposits. In effect, the innovation of publicly traded stock securities invented a new form of capitalist enterprise in which the entrepreneur's enterprise consists of stock trading. Because this speculative activity tends to wander from stock to stock and it is the nature of speculation to involve some degree of attempted fortune telling, I like to label this enterprise "gypsy capitalism." [13]

Among these new capitalists there were two kinds of business interests in play. One of these placed the payment of dividends foremost in the shareholder's business interest. The name used to describe this species of shareholder is "investor." The other placed the interest in profiting through stock trading foremost in the shareholder's objectives. This species of public investor is named the "speculator." Cultivation of both species of interest was effected through the *illusion*, backed by legal terminology, that ownership of stock shares was the same thing as ownership of the company itself. *Founders* were able to secure personal control of the *management* of the company through a peculiar form of representative democracy that replaced the political "one man, one vote" principle with a principle of "one share, one vote" democracy. The homologue of a "house of representatives" allegedly representing the interests of the shareholders was the board of directors of the corporation.

It was and is a sort of *Animal Farm* non-consensus democracy. To paraphrase Orwell, "all shareholders are equal but some are more equal than others." It likely was not pure coincidence that this new kind of non-consensus democracy was invented and arose with the political "Age of Jackson" and its populist fervor in American politics. Founders and other major investors who

[12] Some did have to reconcile themselves to sharing power with powerful financiers such as J.P. Morgan.
[13] In his younger days when he was first starting out, your author was a "gypsy capitalist."

were interested in maintaining personal oversight on how the company was managed, and how well their own interests were being looked after, tended to collectively own a dominating fraction of the publicly issued stock shares and, therefore, were able to establish themselves as the directors of the company and as its principal ruler-managers. The invention of proxy voting at the annual shareholders' meeting was a tactic that effectively took advantage of apathy in regard to actual management of the company that was characteristic of the numerically larger number of the corporation's shareholders.

From a judicial perspective, publicly traded corporations are the oddest ducks in the pond of commerce because, deontologically, *they have no owners and they have no proprietors*. Being a proprietor and being a director or a manager are not the same things. The former is a species of capitalist enterprise, the latter a species of wage laboring. Deontological ownership, again, is the relationship between a person and an item of property in which the person rightfully possesses the item. A proprietor is one who possesses rightfully an item of property. Property is the right to possess, use, and dispose of an item of property. A property right is a particular civil right sufficiently describing the item(s) of property covered under the right. A shareholder owns *something*, but what is it precisely that a shareholder owns?

If you have ever owned a stock share in a publicly traded corporation, you should know from your own experience what you have the right to possess, use, or dispose of. You have the right to receive dividend payments. You have the right to sell your shares to someone else. You have the right to vote at the annual shareholders' meeting (either in person or by proxy). You have the right to receive periodic reports, both audited and unaudited, about the financial performance of the corporation. You have the right to be held free of liability for the corporation's debts and have the right to be held free of culpability for crimes committed by any corporation employee. Unless any additional peculiar rights are established for a particular corporation, *this is all you own*. You do not have a right to dispose of any asset of the corporation. You do not have a right to possess any asset of the corporation. You do not have a right to any say in how the corporation is managed or what business tactics or strategies it will follow. In short you are not an owner of *the corporation*; you are the owner of the shares of its stock you rightfully possess. Stock ownership is in no way whatsoever ownership of the corporation as a business entity. The legal pretense that you and the other shareholders "own the company" is a complete fiction. You are a *stakeholder* with financial interests in the corporation, and a member of its association, but you are not an *owner* of the corporation. Your *stock* ownership is your *personal* capitalist enterprise.

Every publicly traded corporation has, by law, a board of directors. The board of directors is *the governing body of a corporation, elected by shareholders* (according to the principle of "one share/one vote") *empowered to establish corporate policy, appoint executive officers, and make major business and financial decisions* [Garner (2011)]. These empowerments are nothing more and nothing less than the *expectation of authority* the mini-Society of corporate shareholders vests in these representatives. A board of directors is *part of the governance function* of a corporation. In principle the members of a board are pledged to a Duty of fiduciary responsibility to the shareholders[14]. Under uncivic free enterprise any particular board might or might not act in congruence with this pledge; it is very difficult in most cases to prove that a board member might have willfully violated this pledge.

[14] 'Fiduciary' is a legal term. It means "a person who is required to act for the benefit of another person on all matters within the scope of their relationship; one who owes to another the duties of good faith, trust, confidence, and candor" [Garner (2011)]. The "other persons" for whose benefit board members are legally required to act are the shareholders. In practice, many boards of directors ignore their roles as fiduciaries and rarely are directors held accountable for this ignórance by any agency of U.S. government. Sometimes boards act "for the benefit of the shareholders" by violating U.S. civil or criminal laws.

It would be giving the early entrepreneurs whose innovations brought about the phenomenon of publicly traded corporations too much credit to say they devised and followed some grand economic plan in making their inventions. Publicly traded corporations evolved by satisficing decision making and mimesis from earlier forms of business enterprise. Their invention certainly factored in nothing of the special conditions necessary for the maintenance of a Republic. The prejudicial attitudes and presuppositions were set long before by cultural habits of *laissez faire* economics and monarchy/oligarchy traditions that were extended past the point of justification under the social contract of a Republic. It would have been extraordinary if, under these circumstances, the institution had *not* developed as a system of uncivic free enterprise.

The institution was already extraordinary in one aspect; it was the first time in U.S. history when industrial conglomerates were established without deontological ownership and without proprietors – a fact that went un-recognized because the business entity in its superficial appearances looked so much alike to its enterprise predecessor, the close corporation. Even today business theory makes no crisp radical distinction between the two. If you consult *Black's Law Dictionary* you will find nothing in its legal definition of 'corporation' that distinguishes between them, although you will find 48 different sub-definitions for special cases – two of which are 'close corporation' and 'public corporation' (the latter with 3 sub-sub-definitions) and none of which recognize the distinction between deontological ownership and nominal ownership-by-legal-fiat as a form of rulership. It is upon this lack of deontological understanding of ownership that the edifices of uncivic free enterprise today are built.

§ 8. The Circumstances of Publicly Traded Partnerships

Closely related to but deontologically distinct from the publicly traded corporation is the species of industrial conglomerate called a publicly traded limited liability partnership (PTP). In this species of an industrial conglomerate's management organization, one or more persons are designated the "general partners" and public investors are told upfront the general partners are to have all powers of decision-making and management. The general partners share in the profits of the business and are personally liable for the partnership's debts and other liabilities. The public investors are known as the limited partners; they receive a share of the profits, do not take part in managing the business, and are not liable for anything greater than their original investments.

Unlike the publicly traded corporation, the publicly traded partnership has an identifiable corporate proprietor (ref. § 6); namely, the mini-Society consisting of the general partners. The limited partners are not members of the corporate proprietor and they correspond to the share-holders in a publicly traded corporation. They are sometimes called "passive investors" because they do not participate in the operations of the conglomerate and their financial interest is limited to receiving a share of the profits (another type of dividend) plus whatever opportunities to profit by trading on the securities exchanges these capitalist entrepreneurs might find. PTPs combine features of a close corporation and features of a publicly traded corporation.

§ 9. Summary

In this chapter a logical classification taxonomy of various categories of business enterprises and industrial conglomerates has been presented. In the U.S. (and in other countries as well) there is a veritable zoo of different *legal* classifications of commercial entities, and the categories that have been presented in this chapter do not attempt to adhere to these legal categories. The latter, indeed, are defined *ad hoc* and undergo constant revisions often driven by major social, economic, and legal problems empirically encountered from time to time. For example, in the U.S. there is a legal distinction between a limited liability partnership and a limited partnership. These two do not fall under the same genus in table II because of different legal technicalities

pertaining to them. Similarly, U.S. law and the U.S. tax code defines many different species of corporations, including C corporations, S corporations, and limited liability corporations (LLCs), and these do not all fall under the same category in table II. Analysis and theory pertaining to particular empirical cases, therefore, must include an analysis of which genus in table II a particular commercial entity properly falls under. Failing to make the proper distinctions serves only purposes of propaganda and hinders development of social-natural sciences of business and of economics.

This chapter has discussed circumstantial social contract considerations pertaining to the three categories of members of an industrial conglomerate (table I). An essential aspect of this pertains to deontological issues of ownership and proprietorship. Indeed, upon the proper understanding of these issues turns the question of civic vs. uncivic free enterprise. The developmental history of the common types of industrial conglomerates familiar to us today is important in understanding how uncivic free enterprise took root in the United States and brings out the influences and biases unexamined traditions, prejudices, and satisficing decision-making had on its evolution. Two key concepts introduced here are: (1) the concept of the corporate proprietor; and (2) the absence of any deontological owners in publicly traded corporations. Social contracting in relationship to the members of an industrial conglomerate can properly be called interior contracting because all the parties to the social contract are members of the conglomerated association.

There are, however, stakeholders in every industrial conglomerate who are not among its members (table I). Between the members of the conglomerate and these external stakeholders there are social contracting issues as well that affect the parent Society in which it is embedded. Before we can move on to the organization and governance of an Enterprise we must have a firm understanding of these exterior social contracting issues. This takes us to chapter 6.

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