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# EMPOROS

NORTHWOOD UNIVERSITY

# EMPOROS

Volume 1, 2026

**Editor's Note**

It is with great honor that I could serve as the editor of the first volume of *Emporos*. This is a Northwood University initiative to promote, share, and support faculty in their research projects by publishing papers internally for circulation within the university. The goal is to invite comments and suggestions from the broader Northwood academic community to improve these papers and support their development for publication in external venues, while making full use of the resources available on campus. As such, articles published in *Emporos* are working paper, and authors retain the right to submit these works to other journals.

Another objective of *Emporos* is to publish transcripts of talks given at the university. This leads to two categories of publications: working papers, or research notes as we call them, and public lectures, presented here as lecture series. For this inaugural issue, we include three lecture series and five faculty working papers in the research note series. Two of the lecture series are contributions from alumni of the university, reflecting the broader intellectual community connected to Northwood. The quality of the work is tremendous. The expectation is that this issue will circulate throughout the 2026–27 academic year and contribute to the improvement and eventual publication of these research projects.

As Northwood further positions itself as a leader in the defense of the importance of free enterprise and business, the timing is appropriate. The current moment, particularly with the advancement of artificial intelligence, creates an opportunity to scale academic production in ways that were previously limited. The traditional constraints of printing presses and established publication venues, often concentrated in large universities, are no longer binding. With available technology, it is now possible to edit and circulate academic work at relatively low cost while maintaining quality and coherence. This project reflects one of the central tasks of faculty life: the pursuit of truth. *Emporos* is a deliberate effort to share work openly, invite scrutiny, and improve it through engagement. If this issue strengthens the research it contains, then it will have fulfilled its purpose.

Finally, I would like to thank the leadership of Northwood University for supporting the creation of this journal, as well as our Brand and Visual Communications Manager, Gloria Heye, who developed the cover. Special thanks to our Communications Director Kate Hessling, who helped navigate the intricacies of the publication process. She served as associate editor for this volume. I would also like to thank Dr. Timothy G. Nash for writing the introduction to this inaugural volume. In addition, I would like to thank my colleague, Dr. Dale Matcheck, who contributed a piece to this issue and served as associate editor, helping with the production of the volume. While the edits were supervised and completed by the editorial board, the use of artificial intelligence tools was vital in ensuring consistency and preparing materials for this publication.

*Dr. Gabriel Frank Benzecry*

# Table of Contents

## Introduction

### A General History of the Power and Impact of Research and the Need for *Emporos*

*Timothy G. Nash*

Welcome to *Emporos*, a new and promising online journal from Northwood University dedicated to producing insightful economic and business research to improve the U.S. and global economies.

Research is the lifeblood of positive and negative change. *Merriam Webster* defines research as "A studious inquiry or examination; especially investigation or experimentation aimed at the discovery and interpretation of facts, provision of accepted theories or laws in the light of new facts, or practical application of such new or revised theories or laws."

Research has led to a cure for polio, the elimination of some cancers, and great progress in the battle against AIDS. In the last 25 years, scientists attempting to map and finally mapping the human genome, as reported in "The Complete Sequence of a Human Genome" published in the journal *Science*, have dramatically reduced the cost of drugs and greatly improved researchers' problem-solving skills.

AI brings capability for even greater improvement and enhanced cost-cutting in pharmaceutical research and production, and most other areas of scientific research. In today's America, there are almost 300 million vehicles on the road. Most buyers did research before their purchase. Americans generally research the clothes they buy and the gifts they give. Research is embedded into who we are as consumers, regardless of our education and annual income.

From 1730 to 1749, an astonishing 74.5% of all children born in London, England, died before the age of 5, according to T. R. Edmonds's "On the Mortality of Infants in England," based on data from the *London Bills of Mortality*. In an article entitled, "The Average Life Expectancy from 1800 to Today", published in *Very Well Health*, average life expectancy globally in 1800 was no older than 40 years of age. Today in the United States, modern life expectancy is roughly 79 years (76.5 years for males and 81.4 years for females), due to improvements in diet, infant mortality, public health measures, blood tests and medical equipment.

Isaac Newton, Adam Smith, Nikolas Copernicus, Christopher Columbus and in recent times, social scientists John Maynard Keynes, Milton Friedman and Fredrich Hayek were all researchers of great vision.

Unfortunately, minorities were often judged as incapable of solid research due to their religion, gender or race. However, many succeeded despite these obstacles, including Madame Marie Curie. Madame Curie was born in Poland and worked as a governess teaching physics, chemistry and math to children. She was the first woman to win a Nobel Prize and the first person to win the award twice – Physics in 1903 and Chemistry in 1911. Her research revolutionized many areas of medicine.

Born into slavery, Booker T. Washington founded the Tuskegee Institute (now Tuskegee University) in 1881. Washington's two greatest achievements were researching and implementing the school's curriculum and learning model in the sciences and hiring one of America's great research scientists, George Washington Carver, known for numerous agricultural innovations, earned three U.S. patents, as I discussed in a *Townhall* article I co-

authored, "Booker T. Washington and the Many He Influenced."

An article entitled: "Travels – and Life – Improved by the Real McCoy", tells an amazing story of courage and great accomplishment by Elijah J. McCoy, an African-Canadian-American and longtime resident of Southeast Michigan. Due to prejudice, McCoy had to travel to Scotland to complete an apprenticeship in mechanical engineering. McCoy returned to Michigan and invented "The McCoy Lubricator Cup", which more than tripled the hours a steam-powered train could travel. His oil coupler was so effective that train engineers would insist on captaining a train that had "the real McCoy" for its oil lubrication system. McCoy, who earned 57 patents during his lifetime and died in 1929 at the age of 85, was inducted into the U.S. National Inventors Hall of Fame in 2011.

The research of John Maynard Keynes immortalized in his 1936 book, *The General Theory of Employment, Interest and Money*, contains research that ninety years later still has tremendous influence over macroeconomics and government-driven public policy. Today, Keynes is known as the founder of the Keynesian School of Economics.

Milton Friedman, the leading spokesperson for the University of Chicago's School of Economics for decades, wrote two seminal works: The first, *Capitalism and Freedom*, published in 1962 and *A Monetary History of the United States, 1867 – 1960*, published in 1963, which he co-authored with American Economist Anna Schwartz. Friedman's work clearly explained how the Great Depression was caused largely by the failure of U.S. monetary policy, and thus his insistence on a "monetary rule." For his many achievements, Friedman was awarded the 1976 Nobel Prize in Economics.

Fredrich Hayek's research, while at the London School of Economics, resulted in his globally impactful work, *The Road to Serfdom*, published in 1944. The book warned that centralizing economic power would put a society on an irreversible path of economic decline, totalitarianism and oppression. Hayek won the 1974 Nobel Prize in Economics.

Research since 1700 alone has resulted in incredible breakthroughs around the world. Life expectancy among advanced economies has doubled and our most impoverished have benefitted from a higher quality of life. According to the Centers for Disease Control, only .48% of all children born in the United States, die before the age of 5... a number we still can and should improve on.

Undoubtedly, research and writing have made the world a far better place than it was in 1700. Research and "human action" fueled America's history of entrepreneurship, the growth of U.S. patents and copyrights, the birth and growth of major U.S. corporations, our stock markets and the American Competitive Free Enterprise System.

Reading the first edition of *Emporos* harkened me back to the time I was a student at Northwood, studying under great free market luminaries like Dr. Orval Watts, Dr. Dale Haywood, Dr. John Pafford and Dr. Lawrence Reed. Finally, I thank my friend and colleague, Dr. Gabriel Benzecry, the editor of *Emporos*, for the opportunity to write about the importance of research and the impact, I believe, this great new publication will have on Northwood University and the American Competitive Free Enterprise System. Well Done!

**Lecture Series**

This text is adapted from a lecture delivered at the Freedom Seminar on July 14, 2022, entitled "The Inveterate Problems of Political Economy: From Plato to Gen Z" by Dr. Daniel J. Smith. The transcript has been extensively edited for clarity, readability, and conformity with the journal's style guidelines. While the presentation has been reformatted for a written format, all content remains faithful to the original lecture.

## The Inveterate Problems of Political Economy

*Daniel J. Smith*

Thank you very much for having me here today. I truly appreciate the commitment that Northwood University, along with Dale and the entire faculty and staff, put into this annual seminar—and for including me in it over the past few years. I believe it reflects a deep dedication to the ideals of a free society, which is more important now than ever.

When we look at the contemporary world, many of the problems we confront are not new. Yes, there are new nuances and new technologies, but many of the challenges we face have appeared again and again throughout history. People have tried countless ways to organize society, with varying degrees of success and failure.

That is what this lecture will focus on: the longstanding problems of political economy. Thinkers throughout history—from Plato to Marx, to the Enlightenment scholars—have offered very different answers to these persistent challenges. Ultimately, however, I will argue that markets provide the simplest and most effective solution to these problems.

This is especially critical for people going into business. I think Northwood's mission in this area is underappreciated both in the United States and around the world. If the business community cannot defend the free enterprise system, then who will? Who can? It is you—future business leaders—who must deeply understand and articulate the case for business as a foundation of prosperity. If you cannot, then society will remain vulnerable to threats from those who fail to grasp the true mainspring of wealth and human flourishing that business generates.

The inveterate problems of political economy are threefold: First, how do we create governance institutions that are robust to knowledge and incentive problems? In other words, how do we design a political-economic system that is not fragile when confronted with the realities of human behavior, instead of relying on idealized assumptions of omniscience or benevolence on the part of government officials or individuals? I will explain this in more detail shortly. Second, how do we generate material abundance and human well-being—not only for those at the top, but for everyone? And third, how do we foster peace and tolerance, both domestically and internationally?

This is not an exhaustive list of all the challenges in political economy, but in the limited time we have, I believe these are among the most important issues facing societies around the world today. If we look at political philosophy throughout history—from the dawn of human existence onward—we see a variety of attempts to answer these three inveterate problems of political economy.

Take Plato, for example. In *The Republic*, his response was to identify talented individuals—often the children of elites—who could be trained to rise up and become philosopher-kings. The reasoning was

straightforward: people in the marketplace are greedy, self-interested, and shortsighted. They cannot be trusted to govern themselves, which is precisely why we need government in the first place. Rules must be created to restrain them. Democracy, at the time, was even criticized as dangerous. How could one possibly allow ordinary people to choose their rulers? That was considered insane, since the whole point of government was to protect society from its poor decisions. Thus, Plato's solution was to identify and educate the brightest individuals and then empower them to rule benevolently over everyone else. This approach rested on an asymmetric behavioral assumption: while ordinary people were assumed to be greedy and self-interested, governing officials were assumed to be benevolent and nearly omniscient.

Now consider the opposite extreme: Karl Marx. In *Das Kapital* and *The Communist Manifesto*, Marx hypothesized a fundamental transformation of the human spirit. Yes, people might seem greedy, shortsighted, and selfish—but, according to him, that was the fault of capitalism. If capitalism were abolished, and people no longer lived under institutions that encouraged greed, their human spirit would be "unshackled." They would become benevolent and kind, willing to work all day while taking only what they needed. In this way, Marx believed the inveterate problems of political economy could be overcome. His solution, however, rested on a very different assumption: that several generations of life under communism would gradually transform human nature itself, erasing the cultural and social legacies of capitalism.

What I want to focus on today is a third approach—the one brought forward by Adam Smith, David Hume, Adam Ferguson, and other Scottish Enlightenment thinkers. Their idea was radical: rather than designing a political-economic system that ignores, represses, or wishes away the "crooked timber of humanity," why not design a system that works with it?

Their answer was markets. Markets, they argued, are the best institutions for solving the inveterate problems of political economy because they address each of these challenges in powerful and effective ways. The project that Smith and his contemporaries were engaged in was what we might call "robust political economy." They sought institutions that would continue to function even when real-world human behavior deviated from idealized assumptions.

For example, Theory One—Plato's philosopher-kings—might produce the best possible outcomes if, in fact, we could guarantee that our rulers were omniscient, benevolent angels. But what happens when we relax those assumptions and consider the real world, where rulers are not angels? What happens when we create a highly centralized government with unilateral authority, but fail to get a true philosopher-king? The outcomes, as history repeatedly shows us, are disastrous. That makes Plato's theory fragile—too dependent on unrealistic assumptions.

Markets, by contrast, are more like Theory Two. Yes, they work better when participants are educated and responsible. But they still work remarkably well even when people are greedy, selfish, and shortsighted. Markets are designed to be robust to real-world human behavior.

This idea, of course, had important parallels in the American project. Consider James Madison in *Federalist No. 10*. Madison wrote that if humans were angels, or if government could reliably be run by

philosopher-kings, then the entire problem of political economy would disappear. But since that is not the case, relying on such idealized assumptions amounts to engaging in theory that has no real-world application.

The political economists of the Enlightenment instead took the opposite approach. They began with the assumption that all people are shortsighted and self-interested—that they are, in Madison's words, "knaves." And this assumption applied not only to ordinary citizens, but also to political leaders. In other words, no asymmetrical behavioral assumptions: everyone must be treated the same.

This perspective led to the project of comparative political economy: stress-testing different systems by asking how they perform when greedy, selfish, shortsighted people are placed within them. What happens when such people are put into socialist institutions, democratic institutions, or market institutions? Which systems harness human behavior toward socially productive outcomes, and which magnify its worst tendencies?

Adam Smith sought institutions that could channel people's natural proclivities into productive directions rather than attempting to repress, conquer, or ignore them. And this is a critical point that is often misunderstood.

I frequently hear—even from free market advocates—that Adam Smith praised greed. But that is not the case. Smith never said that greed was a virtue or that it was necessary for capitalism to function. His argument was far more subtle. He assumed greed precisely because he wanted to design a system that would work even if people were greedy. He was not celebrating greed; he was stress-testing capitalism against it.

The point is this: markets do not need greed to work well. In fact, they work even better when people are virtuous. But markets are designed to function effectively even when people are selfish and shortsighted. That robustness is their great strength.

Contrast that with command-and-control institutions such as socialism or authoritarianism. If you place greedy, selfish, shortsighted people into systems that grant them unilateral authority over others, the results are predictable. History shows that such arrangements often produce the worst episodes in human history.

One striking example of this can be found in Francis Spufford's book *Red Plenty*, which describes life in the Soviet Union. Even when government planners gave clear orders to state-owned factories—for example, to produce consumer goods like orange juice—the results were absurd. The order was to provide orange juice, and the factories complied: they distributed it in five-gallon jugs. But how many of you could drink five gallons of orange juice before it spoiled in fifty-seven days? How many of your refrigerators, even today, could hold such a container? Soviet citizens—many of whom did not even own cars—were left to carry leaking, unwieldy jugs home on foot, juggling them alongside their other groceries. And yet, the planners persisted. The order had been given: "Provide orange juice." And so they did—never mind that what they provided was entirely unworkable. The same pattern repeated itself across many other sectors.

Take glass windows as an example. At one point, the production quota was set in terms of tonnage. The result? Factories manufactured absurdly thick windows that were so heavy and impractical that they were essentially useless. When officials realized the mistake, they changed the quota to require a

certain number of windows instead. What happened then? Factories turned out extremely thin, fragile windows that broke almost immediately.

The deeper problem was that resources themselves were misallocated. Without functioning input markets or a price system to guide distribution, producers had to find ways—any ways—to meet their quotas. Officially, there was no price system, but of course, one still operated in the black market. This is why the old saying that "socialism works in theory but not in practice" is so misleading. In fact, the reverse is true. Socialism does not even work in theory. The only reason it worked at all in practice was because black markets and borrowed capitalist prices allowed people to survive. Even so, the system remained an abysmal failure.

There are endless examples from the Soviet Union. One I will mention quickly: a 1985 *New York Times* article reported that it had become a crime against the motherland to feed bread to pigs. Why? Because under the distorted planning system, bread had become more plentiful than raw grain. Farmers began feeding bread directly to livestock, which disrupted the state's plan and created shortages for ordinary citizens. So, rather than reforming the system, the state simply criminalized the behavior.

Another example: in theory, funerals were free in the Soviet Union, provided by the state. In practice, however, every step of the process required bribery—from the paperwork to the burial itself. What should have been guaranteed as a right became yet another area corrupted by perverse incentives. And this is precisely what we would expect from even the most basic lessons of supply and demand.

Now let us take greedy, selfish, shortsighted people and filter them not through socialism or authoritarianism, but through democratic institutions. What do we find?

We find uninformed and biased voters. Political scientists have studied this extensively, and the evidence is overwhelming. A shocking number of voters cannot name the three branches of government. Many do not even know who the Vice President of the United States is. I give surveys to my Ph.D. students, and they regularly get these answers wrong.

The reason is straightforward: statistically speaking, the chance of your individual vote determining the outcome of a presidential election is effectively zero. You are more likely to win the Powerball lottery four, five, even seven times in a row, depending on your state, than to cast the deciding vote in a presidential race. If people understand—even implicitly—that their single vote will not determine the outcome, what incentive do they have to become well-informed? Very little.

Consider the old Kevin Costner movie *Swing Vote*. By a quirk of the plot, his ballot is determined to be the one that will decide a tight election. Suddenly, he feels the full weight of responsibility. He becomes nervous, digs into research, studies the candidates carefully, and takes the process seriously. But that is not how most of us approach voting.

Think of it this way: McDonald's probably does more research into who sweeps their floors than the average American does in deciding who will lead the United States for the next four years. Businesses call references, check prior experience, and verify reliability. Most voters do none of that when it comes to their elected officials. Even among my students, when I ask about candidates in current elections, they may say, "I support this person." But when I follow

up—"What committee do they serve on?"—they cannot answer.

This is not to say democratic institutions are worthless. Far from it. But it is to recognize that, compared to markets, they are not nearly as robust. And the problems do not end with uninformed voters. You also get the dominance of special interest groups and lobbying. Why? Because of the logic of dispersed costs and concentrated benefits. A special interest group can lobby for a policy that delivers millions of dollars in benefits to them, while spreading the costs thinly across the rest of society. Each of you might pay an extra ten or fifteen dollars, which is not enough to notice or organize against, but the group benefiting has every incentive to lobby hard.

This is why we end up with things like an incredibly complex tax code. Ask Americans if they want a simpler tax system, and the answer is overwhelmingly yes. So why don't we have one? Because special interests benefit from the current system and fight to keep it that way.

Bureaucracies have their own problems as well: budget maximization, mission creep, conformity, groupthink. If you have ever worked in a bureaucracy, you know that committees rarely get things done efficiently. As a professor in a public university, I can assure you: bureaucracy excels at wasting time and resources.

Perhaps most concerning of all are the incentives faced by politicians. When voters are greedy, selfish, and shortsighted, politicians do not get elected by promising fiscal responsibility. They do not win by pledging balanced budgets or insisting we should not saddle future generations with debt. They win by making promises—promises of benefits here and now, with the costs conveniently deferred onto others.

I'm going to rain benefits down on you. Guess what? You don't have to pay for them—I'll make other people pay. Specifically, people in the future. This is how perpetual deficits are generated by democratic institutions. It leads to the accumulation of debt and, as world history shows us, eventually the debasement of currency.

Here is a visual: stacks of one-dollar notes representing the U.S. public debt—about $30 trillion as of 2022—compared to the Statue of Liberty. If you add unfunded liabilities like Social Security, Medicare, and Medicaid, the total rises to over $200 trillion. Using the same accounting standards that the government requires of private companies, the U.S. government is effectively bankrupt. To put that in perspective: stacked in one-dollar bills, this debt would reach to the moon and back seven times. I recalculated it multiple times, hoping to be wrong, but the numbers are shocking.

Now let's take greedy, selfish, and shortsighted people and stress-test market institutions. Just last week was my daughter Evelyn's second birthday. She loves *CoComelon*, so my wife ordered *CoComelon* balloons. When we went to have them filled with helium, I was surprised to learn that helium prices had skyrocketed. After doing some research, I found that the increase was due to supply constraints from COVID and the effects of Russia's invasion of Ukraine. I also discovered that helium is not just for balloons—it is used in important medical and scientific research.

Faced with this, I made a simple consumer decision. I realized I didn't need to buy a *CoComelon* balloon filled with helium at such a high cost. It

wasn't a noble sacrifice on my part—I wasn't consciously saving helium for researchers. I was simply responding to market incentives.

Markets do this naturally. After Hurricane Katrina devastated New Orleans, it took about 3-6 months before rebuilding really accelerated, and lumber prices in the region began to climb. At the same time, lumber remained relatively cheap in places like Michigan. What did entrepreneurs in Michigan do? They bought lumber here, loaded it onto trucks, and drove it down to New Orleans, where it was desperately needed. Their actions raised the price of lumber in Michigan while lowering it in New Orleans.

By that point—three to six months after Katrina—the news cycle had already moved on, and most people had forgotten. But the market remembered. It directed resources where they were needed most, without central planning, without government edicts, simply through prices and voluntary decisions.

Exceptionally, let's say you didn't have relatives in New Orleans after Hurricane Katrina. You go to the store intending to buy wood for a project, but when you see the price, you pause. Maybe you decide you'll build with something else, or that you don't need a porch right now. You don't have to know anything about where that wood is needed, who it's helping, or even have concern for the people of New Orleans. By responding automatically to the price, you are already participating in the system of incentives that directs resources where they are most valuable. That is the power of the price system.

Now, on innovation—I'm a huge fan of entrepreneurship stories. One of my favorite podcasts is NPR's *How I Built This* with Guy Raz, where entrepreneurs describe their trials, errors, and persistence despite being told by friends and family that they were crazy. Against all odds, they prevail and enrich all of our lives by building businesses.

One of the best examples is Jeff Bezos and Amazon. His parents thought he was reckless, others called him insane, and at one point, the company had $5 billion in debt. Everyone doubted him. But he persisted, and in doing so gave us immense convenience and created jobs for millions worldwide. Imagine the pandemic without Amazon—what would we have done? Thankfully, Bezos continued despite the doubt.

Entrepreneurs are not infallible geniuses. They make mistakes. In fact, large corporations with highly trained MBAs, huge marketing budgets, and world-class advertising regularly produce disastrous failures. I actually collect these examples. Famous ones include Crystal Pepsi, Clairol's yogurt shampoo, Colgate's frozen dinners, and Lifesavers' soda. There's even a Museum of Failure in Sweden that celebrates these missteps.

What matters is that market institutions provide feedback. They say: "This worked, keep going," or "This didn't work, stop." You can combine chocolate and pickles if you want—people have tried it—but the market quickly signals that you're wasting scarce resources and making the world worse by pursuing such an idea. In effect, markets act like lawyers issuing a cease-and-desist order: stop misallocating resources and find something that creates real value instead. On the other hand, if your idea improves lives, markets funnel more resources your way.

Sam Altman, one of the founders of Y Combinator, explained in an interview with Russ

Roberts on *EconTalk* that their investment strategy is to find "ideas that look bad but are good." Why? Because if an idea already looks good, it's already been invested in, and there's little profit left. But if an idea looks bad to most people yet actually has promise, investing in it can pay off enormously. That's how companies like Airbnb, Lyft, and Reddit emerged.

Take Airbnb. If someone had come to me early on with the idea of renting out spare rooms to complete strangers, I would have dismissed it. And yet, by persisting with an idea that seemed "bad," they created a service that transformed travel and housing options worldwide. This is how markets overcome knowledge and incentive problems—they are robust to human error and individual ignorance.

Now, let me shift to the second fundamental problem of political economy: how to generate systematic prosperity. "Markets have historically given rise to immense commercial development, improved navigation and communication, and built great cities. They transformed urban life and lifted countless people out of the idiocy of rural isolation." That observation is not from Adam Smith, David Hume, or Adam Ferguson—it's from Karl Marx. Even Marx acknowledged, at least in part, the remarkable ability of capitalism to generate advanced material production.

Later socialists—especially the "scientific socialists" of the mid-19th century—argued that elite planners could rationalize the economy, internalize externalities, and eliminate what they saw as needless duplication under capitalism. Their claim was that communism would outperform capitalism by being more efficient.

Today, even among scholars who still advocate socialism, you would be hard-pressed to find anyone who argues it can outperform capitalism in generating material prosperity. The historical record is simply too overwhelming to allow that argument.

Consider the evidence. For most of human history, our ancestors lived in dire poverty, generation after generation, with no hope of escape. They lived in smoke-filled huts, surrounded by animals and disease, plagued by malnutrition and lacking remedies for even common illnesses. That was the normal human condition until capitalism transformed the world.

In 1737, Edward Gibbon—the historian who wrote *The Decline and Fall of the Roman Empire*—was born. He was named Edward, as were all five of his brothers. This wasn't simply because the Gibbons family lacked creativity in naming children; it was common practice at the time. Parents knew, statistically, that many of their children would not survive to adulthood. Naming multiple children the same ensured that the family name would be carried on. In Gibbon's case, he was the only brother to survive. Even his sister did not. Childhood mortality and maternal deaths in childbirth were heartbreakingly common.

For most of human history, life was brutal and precarious. Then, in the blink of an eye, historically speaking, humanity jumped from average incomes of just two or three dollars per day to over one hundred dollars per day. That is an increase of more than 3,000%. Nobel Laureates such as Robert Fogel, Angus Deaton, and Douglass North—along with Deirdre McCloskey, who should be a Laureate—have analyzed this transformation from different perspectives. Their conclusion is consistent: the adoption and appreciation of market institutions caused this fundamental change in human well-being.

The difference in quality of life is so drastic that I doubt any of you would trade places with John D. Rockefeller, the world's first billionaire, born in 1839. He had unimaginable wealth, but no indoor plumbing, no electricity, no telephone, no iPhone, and no modern medicine. Even a college student working part-time today enjoys a lifestyle better than Rockefeller in many respects. Would you really switch places with him? Perhaps a few of you might claim you would—but think carefully, and you'll come around.

We see this same pattern around the world. Countries ranked by the Fraser Institute according to economic freedom show a consistent relationship between freedom and prosperity. Nations with more economic freedom have higher GDP per capita, lower rates of extreme poverty, and higher absolute incomes for the poorest 10% of society. If you are going to be poor, you are better off being poor in an economically free society.

To appreciate the impact of technology adoption, just talk to a child. A few days ago, I was explaining contact lenses to my son. I told him they were like glasses that go inside your eyes. He refused to believe me: "Glasses in your eyes would hurt!" When I explained that they were made of soft plastic, he still thought I was making it up. Then I told him that doctors can now use lasers to correct eyesight, so people don't need glasses or contacts at all. His reaction was disbelief—he thought I was joking. When I explained that before these technologies existed, people with poor vision simply lived with it, his response was blunt: "That sucks." He's right. For most of history, conditions were abysmal.

New technology is always expensive at first, available only to a small elite. The first cell phone, released in 1984, cost $4,000. Only the wealthy could buy it. But their purchases helped defray the cost of development, and before long, the technology spread. By 2003, when I was a freshman at Northwood, I bought my first cell phone—a Motorola—while working part-time at a hotel for $5.15 an hour. If I could afford one, then it was truly accessible to anyone who wanted one. In less than twenty years, the cell phone went from being a luxury good for elites to a near-universal tool. That process of adoption has only accelerated since.

Now, let's address inequality—one of the most frequent criticisms of capitalism. Sociologist Mark Rank, hardly a right-leaning economist, wrote *Chasing the American Dream*. He found that 73% of Americans will spend at least one year in the top 20% of the income distribution during their lifetime. That number is astonishing. Over a ten-year period, half of those in the bottom 20% move into higher income brackets, and half of those in the top 20% move down.

Much of the inequality debate is distorted by demographic trends. For example, the top 20% of income households are typically dominated by adults in their prime earning years (ages 25–64), working full-time, often with college degrees, and usually with two earners in the household. By contrast, the bottom 20% are often composed of people who are not working at all (about 44%), working part-time (about 26%), are very young, or are already retired. Many do not have high school diplomas.

So what's going on? More people today are wealthy enough to attend college, which often means temporarily earning less. Marriage is also delayed. These are good trends—more education, more independence—but they distort snapshots of inequality statistics.

Where households once combined their incomes through earlier marriage, today people are marrying later. They remain in lower income brackets until combining incomes later in life, which then bumps them into higher brackets. This is a positive trend, but it makes inequality statistics appear worse.

Another factor is retirement. We have become so wealthy that even ordinary people now expect to retire, and because life expectancy has increased, retirement is longer than ever. When comparing inequality between 1950 and today, it looks like more households have zero income. But that is not because of destitution—it is because people are rich enough to live off their savings in retirement. That is a good thing.

This is why we must be cautious when interpreting inequality statistics. Rather than looking only at income inequality, it is better to examine consumption inequality or, even more important, economic mobility. Can people rise from the bottom of society into higher income brackets? In America, the answer is clearly yes.

That was the second point: markets generate prosperity for everyone.

Now to the third great problem of political economy—how markets foster peace and tolerance. This, I believe, was Adam Smith's most important and least appreciated argument for capitalism. It is the "doux commerce" thesis: participation in commerce encourages virtue. To gain repeat business, one must be honest, civil, and tolerant—even if one is selfish or greedy—because that is how you earn profit.

Think about the difference between political decision-making and market decision-making. During COVID-19, K–12 education was riddled with bitter disputes: Should schools stay remote? Require masks? Mandate vaccines? Should evolution or creationism be taught? Should abstinence-only sex education be imposed? These conflicts were heated precisely because decisions were made collectively.

Now imagine an alternative: government provides education savings accounts or vouchers that parents use at schools of their choice. One family sends their child to a school with masks, another to a school without, and there is no conflict between them. This is how markets work. It is no different from how we buy cars. Imagine if we had to vote collectively on which single type of car everyone must drive: some need trucks, others minivans, others efficient hybrids, others sports cars. The fight would be endless. But with markets, private businesses cater to a wide range of preferences, and what you buy does not conflict with what I buy. Markets reduce conflict.

You can even see this in advertising. Compare presidential election ads to Super Bowl commercials. Political ads often showcase the ugliest side of human expression. Super Bowl ads, by contrast, compete to make you laugh, smile, or feel good. The difference is striking.

There is also hard evidence. Harvard's Joseph Henrich conducted field experiments in small-scale societies across the globe in his 2005 paper "Economic Man' in Cross-Cultural Perspective." His findings: societies most exposed to markets—measured by proximity to a market and by the%age of goods purchased rather than self-produced—showed significantly less selfish behavior and more cooperation.

Similarly, Ariely, Garcia-Rada, Hornuf, and Mann's (2019) study of East and West Germans, "The Impact of Two Different Economic Systems," reveals cultural persistence of socialism. Even after the fall of

the Berlin Wall, East Germans with strong family roots in the socialist system were more likely to cheat in behavioral experiments than those with West German family backgrounds. The norms of socialism had fostered dishonesty, while the norms of capitalism had reinforced honesty.

Other studies confirm this pattern at the international level. Research on the "capitalist peace" by Gartzke (2007) shows that countries more dependent on trade are less likely to engage in armed conflict. Markets, it turns out, are even more pacifying than democracy. One study finds that openness to trade significantly reduces the probability of genocide (Harff 2003).

Kirshner, in his book *Appeasing Bankers*, finds that the financial and business community strongly prefers peace over the instability of war. They have a predictable and consistent tendency to resist conflict because war disrupts markets. In this way, there are strong special interests aligned against warfare.

Jennifer Roback (1986) in her paper "The Political Economy of Segregation," examined Jim Crow laws in the American South, particularly in Alabama. She asked: were businesses already discriminating, with the laws simply codifying existing norms? Or were these laws imposed on businesses that actually wanted to serve African Americans? Her research shows, without doubt, that the laws were imposed. Many businesses, such as streetcar companies, wanted to serve all customers and even protested the regulations that forced them to discriminate. Economically, it makes sense: discrimination hurts business. If you exclude groups of people from your workforce or customer base, you reduce your competitiveness. Someone else will hire those workers or sell to those customers and eventually outcompete you. Capitalism, systematically, punishes discrimination.

Further research supports this. Berggren and Nilsson (2013), in their paper "Does Economic Freedom Foster Tolerance?" studied tolerance for gay and lesbian couples worldwide and found a strong relationship between economic freedom and social acceptance. Saumitra Jha (2013), in another fascinating paper, "Trade, Institutions, and Ethnic Tolerance," looked at medieval ports in Southeast Asia. These ports were ethnically and linguistically diverse trading hubs. Over centuries, those areas became significantly less prone to riots than other parts of their countries. Remarkably, this cultural norm persisted between 950 and 1995—capitalist practices fostered tolerance generation after generation.

Other experiments highlight how markets encourage cooperation. In one study, Al-Ubaydli, Houser, Nye, Paganelli, and Pan (2013) primed college students with market-related words—terms like "business," "entrepreneurship," or "markets." Another group received no such priming. When the students participated in behavioral games, those exposed to market words consistently behaved more cooperatively and honestly. Simply introducing the terms of markets or entrepreneurship encouraged more trustworthy behavior.

Perhaps the most compelling evidence comes from development economist Bill Easterly in his 2000 paper "Can Institutions Resolve Ethnic Conflict?" He compared countries along two dimensions: the quality of their institutions (rule of law, property rights, constitutional limits on power) and their level of ethno-linguistic diversity. His findings were striking. In countries with strong institutions, diversity had no significant impact on the probability of violence or

genocide. But in countries with weak institutions, diversity dramatically increased the likelihood of genocide. The intuition is simple: if the rule of law is strong, people do not fear domination by another group, because power is checked and opportunities recur. But in weak institutional environments, if one group takes power, it can discriminate unchecked against others. This fosters insecurity, fear, and ultimately violence.

The most sobering evidence comes from R. J. Rummel's book *Death by Government*. He documents the staggering number of people killed by their own governments in the twentieth century—not in war, but through state oppression and purges. The twentieth century, supposedly the most "enlightened" in history, saw authoritarian and socialist regimes slaughter their own populations. Almost without exception, every major case of mass state murder occurred in such regimes.

Alexander Solzhenitsyn, in *The Gulag Archipelago*, chronicled life under the Soviet Union's prison system. His work exposed the cruelty, systemic injustice, and human cost of authoritarian socialism. It is a chilling reminder of what happens when institutions fail, and power is unchecked.

At the very beginning of *The Gulag Archipelago*, Aleksandr Solzhenitsyn warned of a temptation that future generations would face: to believe that what happened in the Soviet Union could never happen again, that people were too enlightened or too educated. But, as he wrote, "We were educated, we were enlightened, we were normal people. We didn't love freedom enough. And everything else followed from that." Millions of deaths followed from that.

This brings me to a different but related concern: the morality of markets. So far, we have seen how markets provide robust solutions to the three great problems of political economy. Yet questions remain about how we ought to live with one another. When we interact with family and friends, we do so with affection, love, forgiveness, empathy, and beneficence. In the extended order of the market, however, we interact with anonymous strangers. Here we rely on contracts, consent, and the freedom to walk away.

This difference leads some modern advocates of socialism to argue that we should treat everyone as if they were family and friends. Wouldn't the world be better, they ask, if we extended intimate norms to all of society?

The problem is that such norms do not scale. First, there are knowledge problems. Cognitive and emotional limitations mean that we can only maintain truly intimate relationships with about 150–350 people. Beyond that, we cannot know others well enough to apply the same norms of care. Even if one simply wants to help, it is remarkably difficult to do so effectively at a distance.

Economist William Easterly illustrates this in *The White Man's Burden*. Despite more than a trillion dollars in foreign aid to developing nations, evidence shows that aid has often left these countries worse off—or, at best, no better off. Trained experts from elite universities, armed with development studies degrees, organized projects that repeatedly failed. Fish-processing plants were built in regions where people did not eat fish; milk factories were constructed where tribes did not drink milk. Trillions spent, and yet countless examples of failure.

Even in domestic crises, good intentions can backfire. After the tornadoes in Joplin, Missouri, and Tuscaloosa, Alabama in 2011, city officials begged Americans not to send in-kind donations. They pleaded: "Please don't send us clothes, shoes, water, washing machines." Tuscaloosa alone received 27 warehouses of donated goods. The effort to sort them actually pulled manpower away from rebuilding homes. The officials explained that businesses using the price system already knew what was needed far better than distant donors. People, acting out of kindness, ended up "doing bad by doing good."

Chris Coyne, in his book *Doing Bad by Doing Good*, has shown that even delivering food and water in disaster zones is fraught with problems. Knowledge problems, technical complexities, and unintended consequences consistently undermine humanitarian efforts.

But there are also incentive problems. The intimate order is exclusionary: we choose our close circle based on similarity, which leaves out outsiders. Psychologist Paul Bloom, in his book *Against Empathy*, argues that empathy makes a poor guide for social policy. Empathy is often biased, self-serving, innumerate, and irrational. It directs disproportionate resources to those who "feel" more like us or whose stories are more vivid, even when far greater needs exist elsewhere.

Thus, trying to extend intimate-order norms to the extended order of the market leads to severe knowledge and incentive failures. Ironically, it is precisely the market—through impersonal exchange—that preserves and strengthens the intimate order. By creating wealth and stability, markets protect the space where genuine affection and empathy among family and friends can thrive.

If you've ever tried doing a renovation project with a brother-in-law, family member, or close friend, you know it can create disputes—when to start, how to do the work, the quality of the job. It often puts stress on an existing intimate relationship. By contrast, hiring someone from outside—someone you previously didn't know—can not only avoid that strain but even lead to new friendships. Markets, in this sense, expand our circle.

Capitalism has also reduced the material constraints that once shaped family life. For most of human history, people married not for love but because their parents arranged matches to advance the family's strategic, political, or economic position. Friends were often chosen for similar reasons. Children were valued primarily for their economic necessity to the household, not for affection. It is the wealth generated by capitalism that has "de-commodified" the family, freeing us to enter into relationships based on love, friendship, and genuine choice.

Joseph Henrich, in *The WEIRDest People in the World*, describes how kin-based, small-scale societies tend to be exclusionary, hostile to outsiders, and highly conformist. Marriages are arranged—sometimes even cousin marriages are encouraged—to keep wealth within the family. Social order is enforced through ritual, taboo, and ostracism. Markets, by contrast, provide a "thin" moral framework—justice, contract, and consent—that allows people with vastly different worldviews to cooperate peacefully.

Some moral philosophers criticize markets for lacking "deep" morality. But that is precisely their strength. Markets don't require agreement on ultimate values or philosophies. They allow us to allocate scarce resources without demanding uniformity of belief.

Markets also expand the time and resources available to families and friends. In the most economically free countries, life expectancy is more than 20 years longer than in unfree ones—that can mean the difference between knowing your grandchildren or not. Hours worked have steadily declined while world GDP has risen. Contrary to popular belief, this is not because of laziness but because greater productivity has freed us from endless toil, allowing more time with loved ones.

The share of income spent on necessities has also plummeted. In 1880, Robert Fogel estimated that the average American spent 80% of their income just to survive. By 2004, it was less than one-third. The result is vast disposable income available for art, literature, music, leisure, and family life. In short, capitalism has moved us up Maslow's hierarchy—from subsistence to self-actualization.

Chris Anderson, in *The Long Tail*, shows how specialization and division of labor expand occupational choice. For most of history, a child's future was predetermined: you would farm, hunt, or work in the household. Today, we ask kindergarteners what they want to be when they grow up—and we actually mean it. They can become professional gamers, opera singers, marine biologists swimming with dolphins, or YouTubers. The sheer range of options is unprecedented.

This division of labor also liberates people with disabilities. Personally, I have allergies, poor tear production, and foot problems. A few hundred years ago, I wouldn't have survived long. Today, I can stand behind a podium, talk about other people's work, and still earn a decent living. Stephen Hawking is an even more striking example: in most of human history, someone with his condition could not have survived, let alone become one of the most recognized thinkers in the world. Under capitalism, he not only survived but made extraordinary contributions.

Markets also expand freedom of consumption. Popular music today might be Taylor Swift (I admit I'm out of touch), but markets also provide for every niche taste: African throat singing, Gregorian chants, reggae drumming—anything. The same applies to films, books, video games, and countless other goods. Markets cater both to mass demand and to arcane, individual preferences, enriching the cultural lives of billions.

David Friedman, the son of Milton Friedman, has a rather unusual passion—he is deeply interested in medieval cooking. He and others search through old medieval recipe books, find the original ingredients, prepare the food, bake the bread, and then meet up at conferences to share the results. It's a fascinating example of the wide variety of tastes and preferences that flourish in a free society.

Now think about privacy. At some point in your life—whether in medicine or some other sensitive area—you will likely purchase something you would prefer not to have your close family and friends know about. In a small, intimate society, such transactions would immediately become the subject of gossip, with everyone in town knowing your business. But thank God for markets: they allow us to transact anonymously with strangers. This provides us with a level of privacy that protects our dignity, our autonomy, and our ability to author our own lives. Markets give us the freedom to write our own stories, free from geographical, cultural, physical, or mental constraints.

This connects directly to one of the most important principles in economics: the law of comparative advantage. You've probably encountered

it before, but it is worth recalling that its original name, given by David Ricardo, was the "law of association." The point is that for any two people in the world, there is always the potential for mutually beneficial exchange. No matter whom you meet, there is the possibility of creating value together through trade. This truth underpins the remarkable ability of markets to expand cooperation across cultures and nations.

Another important insight comes from psychology. Studies on conformity versus diversity in personality dimensions consistently show that people in economically free countries demonstrate far greater measured diversity. In other words, freer societies allow people to be more different. Economically free societies let a thousand flowers bloom, while socialist or authoritarian societies enforce conformity and suppress individuality.

In the end, the inveterate problems of political economy, from designing governance institutions robust to human knowledge and incentive limitations, to generating widespread material abundance and well-being, to fostering peace and tolerance among imperfect people, have challenged thinkers from Plato to the present day. Plato placed his faith in philosopher-kings, and Marx awaited a transformation of human nature under socialism. Both approaches ultimately demanded miracles that never arrived. Markets, by contrast, require no such miracles. They work with the crooked timber of humanity, channeling self-interest through prices and voluntary exchange, turning ignorance into coordinated prosperity, and cultivating the commercial virtues of honesty, civility, and tolerance. The evidence, from skyrocketing living standards to the remarkable diversity and cooperation that flourish in economically free societies, speaks for itself. For Gen Z and every generation that follows, the path forward is not found in the pursuit of perfect rulers or perfect people, but in institutions that make the very best use of imperfect ones. As future business leaders at Northwood, you are uniquely positioned not only to thrive within this system, but to understand it deeply and defend it vigorously. The future of free enterprise—and with it, the future of human flourishing—rests in your hands.

**Lecture Series**

This text is adapted from a lecture delivered by Michael Tanner on May 17, 2019, on his book *The Inclusive Economy: How to Bring Wealth to America's Poor*, as part of Values Emphasis Week. The transcript has been extensively edited for clarity, readability, and conformity with the journal's style guidelines. While the presentation has been reformatted for a written format, all content remains faithful to the original lecture.

## The Inclusive Economy: How to Bring Wealth to America's Poor

*Michael Tanner*

I want to talk today about fighting poverty from a free-market perspective. This is something people who believe in free markets don't talk about nearly enough—and we really should. For one, we actually have some answers for how to deal with poverty that others do not. And second, on both moral and practical grounds, we should care about poverty. The goal of public policy—the reason we study it, the reason we debate, and design it—is human flourishing. We want to give everyone a chance to become all that they can be, to achieve everything within their grasp. That includes the least among us—the people who need help the most. We should want opportunity to be accessible to them as well. From a practical standpoint, we don't want to become like some Latin American countries, where the wealthy live behind gates and walls while the masses outside look in and grow resentful. That's not a recipe for a stable government or a stable society. So, for both moral and practical reasons, we should care deeply about what we're doing when it comes to poverty. I want to talk about some ideas on this, starting with a very simple and basic question: Why are people poor in the first place? When we look around the political and academic worlds, we find that the arguments tend to fall into two main camps. People in these two groups often argue passionately with one another—whether in academic conferences or on legislative floors.

One side argues that poverty is largely the result of individual behavior and choices—what's sometimes referred to as a "culture of poverty." The idea is that people are poor because of things they do or don't do in their lives. A lot of this argument centers around what's called the "success sequence." Statistically, it bears out: if a person graduates from school (at least high school), gets a job (any job—even a part-time or minimum-wage one), and waits to have children until after marriage, they are very unlikely to be poor. This holds true both in the aggregate and on an individual level. For instance, about half of all people who drop out of high school live below the poverty line, while almost no one who graduates from college remains poor for any extended period. Less than three% of Americans who work full-time live in poverty, and even part-time work makes a big difference compared to unemployment—where roughly 40% of people are poor. Having a child outside of marriage increases the likelihood of poverty by about five times compared to those who wait until after marriage or choose not to have children. Each of these decisions shows up clearly in the data. However, we should bear in mind that correlation is not causation. People who face other challenges that make them more likely to be poor may also be more likely to drop out of school, less likely to get a job, or more likely to have children outside of marriage. Still, the evidence shows that individual decisions, choices, and cultural factors do matter when it comes to whether people end up in poverty.

On the other side of the equation are those who argue that the causes are more structural. They point to factors such as race, gender-based discrimination, and economic dislocation—and they, too, have strong evidence. The United States has a long history of racism and continues to struggle with unequal treatment of African Americans and other people of color. Between slavery, Jim Crow, and ongoing discrimination, the African American community has been deprived of over 10 trillion dollars in capital. Issues of race continue to shape patterns of poverty today. Gender-based discrimination and economic dislocation also play important roles. In short, while individual choices and behaviors are significant, structural issues—like race and gender-based discrimination—also play crucial roles in determining poverty.

I am a strong believer in the glories of free-market capitalism. It has done more to create wealth and lift people out of poverty than anything else in history. However, it does not always benefit everyone equally. As an economist, I often use the example of the invention of the automobile. It created immense wealth and left society better off overall, but it also put some people out of business. The best buggy-whip manufacturer in the world suddenly had no market. This example shows that while free trade and innovation produce far more winners than losers, they still lead to job losses that need to be addressed. So where do I come down on these two competing theories? I believe there is truth in both. We cannot dismiss individual choices and behavior, but we also cannot ignore the structural issues that constrain those choices. A poor minority child growing up in the inner city faces very different circumstances than a white middle-class child in the suburbs. Those structural realities must be part of any serious conversation about poverty.

Despite the federal government spending about $1.2 to $1.3 trillion annually on anti-poverty programs, with state and local governments contributing another $300 billion, and operating over one hundred different initiatives, we still see persistent poverty. While these programs reduce poverty rates to some extent, they often focus on making poverty less miserable rather than eliminating it altogether. We need to shift our focus toward enabling people to become masters of their own destiny. Maslow's hierarchy of needs reminds us that although we often provide basic necessities such as food and shelter, we do a poor job of helping people achieve self-actualization. Our goal should be to help individuals become self-supporting—able to care for themselves and their families.

One breakthrough idea for helping people escape poverty is for the government to stop making people poor in the first place. Many government policies and programs unintentionally push people into poverty or make it difficult for them to climb out. Criminal justice reform is one area that is particularly ripe for bipartisan progress. The criminal justice system disproportionately impacts low-income communities and communities of color, often trapping them in cycles of poverty. Over-criminalization—through policies such as the war on drugs and the war on sex work—has resulted in many low-income individuals being incarcerated, creating a domino effect across their neighborhoods. Addressing these issues is essential if we want to help people escape poverty once and for all.

William Julius Wilson has noted that roughly 1.5 million young Black men are not considered "marriageable material" because they are either in jail, on probation, or have a criminal record that prevents them from obtaining the kind of job that can support

a family. Criminal records drive people into poverty, as even a minor mistake in youth can lead to a felony conviction that follows them throughout their lives. This makes it extremely difficult to find employment, gain college admission, secure scholarships, or obtain housing. Researchers at Vanderbilt University estimate that comprehensive criminal justice reform could reduce the poverty rate by about 20%. Addressing issues such as over-criminalization, plea bargaining abuses, three-strikes laws, and excessive sentencing would prevent many people from becoming entangled in the criminal justice system, thereby reducing poverty overall.

The education system also needs serious reform. Dropping out of school significantly increases the likelihood of living in poverty, while completing college makes it much less likely. However, government schools—particularly in low-income areas—often fail to provide a quality education. Parents in these communities have very limited choices, and in some states, it is even a felony to send a child to a school outside their designated district. This form of segregation by income and race leads to poor educational outcomes, especially for students of color. We need to expand school choice and improve the quality of education through competition and entrepreneurship. The current pedagogical model has changed very little over the centuries and is long overdue for innovation if we truly want to prepare children for success.

Housing is another critical area in need of reform. Where a person lives directly affects access to jobs, quality schools, and safety. Zoning laws often segregate communities by income and race, driving up housing costs and forcing low-income families into disadvantaged areas. We must address restrictive zoning practices—such as minimum lot sizes, aesthetic standards, and other regulations—that prevent the construction of affordable housing. By removing these barriers, we can expand access to low-cost housing and allow families with limited means to move into areas with greater opportunity. We really need to be addressing that. As I mentioned earlier, housing is one of the most important ways people build wealth in this country. If we do not allow low-income families to participate in homeownership, we perpetuate intergenerational poverty rather than creating opportunities for intergenerational wealth.

Speaking of wealth, that is probably the fourth major area in need of reform. Paradoxically, many of our social welfare policies encourage consumption and discourage wealth building. Yet people do not escape poverty by consuming; they escape it by building wealth. Savings, investments, and entrepreneurship—these are the pathways that allow individuals to rise out of poverty. Unfortunately, we are often moving in the opposite direction. If someone receives a welfare check and spends it all on the latest athletic shoes, that is perfectly acceptable within the system—we do not care what it is spent on, as long as it is spent. But if that same person were to save part of the check in a 529 account so that their children could one day go to college, the welfare benefits would be withdrawn. In many states, owning a car can also violate asset limits. In fact, in most states, if you have a car that allows you to search for a job, you risk losing your welfare benefits simply because you possess an asset. These policies make very little sense.

On the other side of the equation, we make it perversely difficult to bank if you are poor. We have become so fearful—between the war on terror and the war on drugs—that we have passed a host of anti–money laundering laws requiring all sorts of

identification just to open a simple checking or savings account. You often hear arguments about voter IDs, with some saying they are unfair and others saying they are necessary to protect integrity. I do not want to get into that debate, but the point is this: in order to open a savings account, you need the same kinds of identification. Surveys show that about 20% of low-income individuals lack the proper ID to do so. Now imagine what that means if you do not have a bank account. You cannot build up savings or borrow against them for credit. You cannot get a credit card. You cannot even deposit your paycheck, so you have to go to a check-cashing place and pay exorbitant fees just to access your own money. Then you are forced to carry large amounts of cash, which increases the risk of being robbed—or of having the police mistake you for a drug courier and seize your money through asset forfeiture. We make it incredibly difficult for the poor to save. Our system is biased against savings, when it should be exactly the other way around.

Lastly, we need to look at policies that promote inclusive growth. Modern free-market capitalism has done more than anything else in human history to lift people out of poverty. It creates and builds wealth. If you were to draw a line showing the average income and net worth of people throughout history, you would see that for most of human existence, mankind was miserably, desperately poor—ruled by a small group of people who were only slightly less miserably, desperately poor. Then, about two or three hundred years ago, something changed. People often refer to it as the "hockey stick" moment—when the lines that had been flat for centuries suddenly shoot upward, showing an explosion of wealth on a per capita basis. That change was the advent of modern free-market capitalism. We know that entrepreneurship and free markets build wealth, but if we truly want to reduce poverty, we must ensure that everyone can participate in those markets. We need to make sure that the people at the bottom—the low-income earners—are fully included in economic growth. We do not want a two-tiered system in which all the gains of growth go to those at the top while those at the bottom are left behind. Unfortunately, government policies often crowd people out and prevent them from becoming part of the growing economy. For example, occupational licensing laws in the United States now affect roughly 25% to 30% of all jobs, requiring government permission to work in a given field. And these are not just for surgeons or lawyers—they include hairdressers, beauticians, funeral attendants, tree trimmers, and even hair braiders. These restrictions frequently make little sense. In many states, it takes longer and costs more to become a licensed beautician than an emergency medical technician, even though the consequences of an EMT's mistakes are far more serious.

Take the example of a young single mother in Louisiana. She is on welfare but wants to work. She has a good eye for design and decides she wants to become a florist. In Louisiana, however, to be a florist you must first complete a six-month course in floral arranging. So, she enrolls in the course, buys the required textbooks, and arranges childcare for her child while she attends classes twice a week. After completing the course, paying the fees, and purchasing the materials, she must then take a licensing exam to assess her floral arranging skills. The test is offered only twice a year and only in Monroe, Louisiana, so she must again find childcare, drive to Monroe, and stay overnight in a hotel, as it is a two-day exam. Once she passes the written and practical portions, she can finally become a licensed florist. However, she still cannot sell flower arrangements from her home because residential and occupational

zoning laws prohibit home-based businesses unless they meet certain requirements—requirements that are nearly impossible to satisfy in a small apartment or modest home. As a result, she must either rent a storefront or find work with someone else, both of which create additional financial barriers. This is a perfect example of how well-intentioned regulations can make it harder, not easier, for people to lift themselves out of poverty.

Another area that needs reform is childcare. If you are a single parent trying to get a job, finding affordable childcare can be a tremendous challenge. About 60% of Americans live in what are called "childcare deserts," areas where affordable childcare is not available within a reasonable distance. Government regulations contribute to this problem by imposing a wide range of requirements on childcare providers. Health and safety standards are, of course, necessary, but some of these regulations go far beyond what is reasonable. In some states, for example, every childcare provider must have an education degree, or facilities are required to hire only bilingual staff. These kinds of mandates dramatically increase the cost of childcare, putting it further out of reach for low-income families.

Minimum wage laws also need to be reconsidered. Pushing for a $15-an-hour minimum wage does not account for the reality that the true minimum wage is always zero—because businesses can simply choose not to hire someone. Forcing businesses to pay more than the value a worker contributes, particularly in entry-level positions, does not help; it makes it harder for people to find jobs and contributes further to the cycle of poverty. If you compel a business to pay someone more than the value they bring in, especially in low-skill or entry-level work, you make it very difficult for that business to hire them. The literature on the minimum wage is murkier than it once was. While increasing the minimum wage can benefit some people by raising their earnings, it can also lead to job losses for others. For example, the Congressional Budget Office reported that raising the minimum wage to $15 an hour could lift the wages of 6 or 7 million people but would result in about one and a half million people losing their jobs.

Ultimately, raising the minimum wage tends to increase pay for some low-skilled workers at the expense of eliminating jobs for those who are even less skilled. The larger point is this: if we truly want to help people escape poverty, we need to get out of their way. Poor people are not lazy; they have the same hopes and ambitions as anyone else. The reason they often struggle to achieve them has far more to do with the policies we have in place than with any lack of effort or aspiration. Surveys consistently show that low-income individuals themselves believe it is more important to have a growing economy with more entrepreneurship and job creation than to expand social welfare benefits. Those who depend on these benefits understand that the real solution is opportunity—the chance to create wealth, to find work, and to become self-supporting. And to make that possible, we are going to have to get the government out of the way.

California has a higher poverty rate than Mississippi, Louisiana, or Alabama—places most people typically associate with deep, persistent poverty. Clearly, something is not working there. We thought that would be a particularly important area to study. We began this project about two and a half years ago, before the pandemic. At that time, I was spending roughly every other week in California to be on the ground. We wanted to make sure we were not

simply parachuting into a state and saying, "We are from Washington, we have all the answers, just listen to us." So I spent a great deal of time on the ground—and later, over Zoom—talking to people on the front lines. We spoke with politicians from all parties, social activists, charity workers, and the poor themselves. I walked through homeless encampments and spoke directly with people living on the street. What we found was a genuine willingness to listen to new ideas. Perhaps things have gotten so bad that they are willing to listen even to me. But there is a growing openness to talk about reform and to build coalitions that did not exist before. You have to speak their language. You cannot come in and lecture; you have to understand concepts like intersectionality, social justice, and the frameworks through which they think about these issues. But if you can engage with them on those terms, you can introduce free-market ideas and start building meaningful coalitions for change.

In building these coalitions, I met with the United Farm Workers, the NAACP, and various Chambers of Commerce—including Hispanic, Asian, and Black Chambers of Commerce across the state. We spoke with people from every sector about the types of reforms needed, and one theme came up again and again: the education system. California has very limited school choice, no private school choice, and a highly regulated charter school system that is capped. Expanding educational choice is essential. The housing situation is also dire. The state is short by about three and a half million housing units relative to current needs. One of the reasons population growth has stalled is that people are no longer moving into California. The outflow rate—the number of people leaving the state—is about what it has always been, but the inflow has slowed dramatically. The average cost of a home is now around one million dollars, and a two-bedroom apartment in cities like Los Angeles or San Francisco rents for about $2,500 a month. It is basic supply and demand: there is strong demand for housing, but very little supply—largely because of restrictive regulations.

We have also been able to talk with them about occupational licensing, occupational zoning, and the need to reform childcare regulations. There is a willingness to listen, regardless of party affiliation. Hopefully, we will also be able to have productive conversations about the minimum wage, though that topic has not been received as warmly as some of the others. Still, there is a discussion happening—especially in the Central Valley, where roughly half the population earns less than 15 dollars an hour. A statewide increase in the minimum wage would have major consequences. As the mayor of Fresno told me, "Tell Sacramento not to impose a statewide minimum wage."

In conclusion, if there is one theme that runs through all of these questions, it is that good intentions are not enough. Whether we are talking about welfare, childcare, housing, or job creation, simply spending more money or expanding government programs will not solve the underlying problems. Real progress requires removing barriers, unleashing entrepreneurship, and trusting individuals to make choices for themselves and their families. Free markets are not perfect, but they remain the most powerful force for lifting people out of poverty and creating opportunity. The task before us is to make sure that everyone—especially those at the bottom—has access to participate in that system of opportunity and growth. If we can do that, we will not only reduce poverty but also expand human freedom and flourishing for all.

**Lecture Series**

This text is adapted from a lecture delivered at the Free-Market Road Show on April 14, 2025, entitled "What Reforms Do Entrepreneurs Want from Today's Congress and the White House" by Don Gottwald. The transcript has been extensively edited for clarity, readability, and conformity with the journal's style guidelines. While the presentation has been reformatted for a written format, all content remains faithful to the original lecture.

## What Reforms Do Entrepreneurs Want from Today's Congress and the White House?

*Don Gottwald*

I was asked to share some ideas that have a material impact on U.S. businesses as we address the topic of reforms entrepreneurs want from today's Congress and the White House. I reached out to about three dozen friends and colleagues—entrepreneurs, business owners, senior business leaders—to gather their feedback. I'll mix that with my own perspectives today.

I'll start with a baseline assumption. Then I'll highlight some key reform areas, just a few of the many possible options. I'll give you some context for why I think they matter, using round numbers to be directionally right, not precisely wrong. We'll touch on some specifics, and then I'll wrap up with key takeaways and Q&A.

Let's start with that baseline assumption: What *should* entrepreneurs want from their government? In any competitive activity, whether business, team sports, board games, esports, or game shows, participants should want a level playing field, clear and stable rules, impartial officials to enforce those rules, and an environment where the participants determine the outcomes. Nonparticipants shouldn't get to pick winners and losers. But what if you could tilt the game in your favor?

The *Wheel of Fortune* game show can help illustrate this concept. In the game, contestants spin a wheel and accumulate prizes and cash as they solve word puzzles. But there are also negative tiles—Bankrupt, Lose a Turn. Now imagine, with a nudge and a wink, the producers removed those tiles when it was your turn and added them to your opponents'. That would materially increase your odds of winning. But when the next round came, they might tilt the wheel for your opponent instead, wiping away your advantage. The metaphor is simple: if government tilts the field in your favor today, it can tilt it away tomorrow.

If you know *Wheel of Fortune*, then you know the Bonus Round's given letters: R, S, T, L, N, and E. We're going to use those as a mnemonic framework for the reforms I'll suggest today. Let's start with R for Reduce Regulation. Let me give some context for why this is such an important area of reform. The American Action Forum estimated that the Biden administration put in place more than 2,000 new regulations. And his predecessor, President Trump, installed nearly 1,300 new regulations in his first term.

Granted, the economic impact of the Biden administration's regulations was much more severe, but the bottom line is this: in just the last eight years, thousands of new rules and restrictions have been added to the economy. Where do these come from? Federal agencies. Here's a trivia question: how many federal agencies are there? This has been in the news recently. Any guesses? 300? 140? 500? A thousand? The best estimate I've found is somewhere between 430 and 440. There are about 430 to 440 federal agencies wreaking havoc—sorry, Freudian slip—impacting the United States. Yet Congress only passes about a

hundred new laws a year. How is that possible? It's because of the administrative state, where federal agencies issue thousands of new rules each year, some proposed, some final, all affecting the U.S. economy.

Our friend Professor Hayek wrote in his introduction to the American edition of *The Road to Serfdom* that the increasing reliance on administrative coercion would likely shape policy for a long time to come. Eighty years later, here we are, living with the consequences of decades of administrative growth. Current U.S. Supreme Court Associate Justice Neil Gorsuch has written about this in his book *Overruled: The Human Toll of Too Much Law*. He shares stories of everyday Americans—many small business owners—and the burdens they face because of excessive regulation. One example: Indian Ladder Farms, a fifth-generation apple orchard outside Albany, New York. *A New York Times* study about a decade ago estimated that apple orchards alone are subject to 5,000 rules, restrictions, and regulations. Some are well-meaning—employee safety, food safety—but many are simply absurd.

A lawyer who works with orchards said these ever-stricter regulations are putting businesses out of business. For Indian Ladder Farms, compliance costs tens of thousands of dollars. And unlike opening a board game like Monopoly, where you get the rules upfront, regulations are scattered across agencies. One estimate suggests that if you tried to find and read them all, it would take you three years. And what about regulatory crimes? Yes—crimes. Many regulations now carry criminal penalties: fines, jail time, even law enforcement powers. Dozens of federal agencies today have their own armed agents—badge-wielding, gun-carrying, body-armor-wearing agents—on top of the FBI and police. One estimate suggests there are 300,000 regulatory crimes on the books. Gorsuch even cites a lawyer who claims the average American unknowingly commits three felonies a day.

Now, a word on licensing, business permitting and business licensing. These can go far beyond competency and safety, becoming de facto barriers to new entrants. Research shows they restrict mobility and economic growth. If a professional licensed in one state has to sit for another board exam in another state, it reduces their likelihood of moving there. A little history: 75 years ago, only one in 20 U.S. workers needed a license. Today, that number is about one in four. Yes—one in four.

Let me share the story of Marty the Magician and Casey the Rabbit. About 10 or 15 years ago, Marty Hahne, a children's magician, made national headlines because of the licensing maze. After performing at a local library, a federal agent approached him and asked to see his license. He said, "License for what?" The answer: "For your rabbit." Marty had no idea he needed a license for Casey the Rabbit. But back in 1966, Congress passed the Animal Welfare Act, originally for research animals. Later it was expanded to cover carnivals, circuses, and zoos—seemingly reasonable. But bureaucrats eventually stretched it to include animal acts and educational exhibits. That ensnared Marty and Casey.

Marty applied for and received a federal license, but with it came home inspections. Yes—home inspections. Agents came to Marty's home to inspect his three-pound rabbit and how he was caring for it. Whenever Marty left the local area, he had to file a travel itinerary with the U.S. Department of Agriculture for his rabbit. He also had to submit a disaster contingency plan—what would happen in the event of a natural disaster. It took the agency four years to amend these rules. Marty eventually hired an outside expert to help him comply, producing a 28-

page disaster recovery plan. When he submitted it, the agency's response was that it seemed "a little light," given all that was supposed to be covered—for a three-pound rabbit. Let me pull a rabbit out of my hat on that one.

So, with this as a backdrop, what can we do? First, pare down inconsistent and overlapping regulations. Remember the apple orchard? At least a half dozen federal agencies have jurisdiction over a single family-run orchard. Second, remove licensing barriers. For example, in Texas it once took more than 300 hours to get licensed as a hair braider, while becoming an EMT required only 150. That has since been fixed, but it illustrates the problem. Third, we need reforms in specific sectors. I heard the same concern from my circle: we cannot build the necessary energy infrastructure under today's permitting and zoning restrictions. The current administration is trying to tackle this—time will tell how successful they are. Healthcare is another sector: "certificate of need" laws stifle innovation and competition, and they need to go. That's R, Reduce Regulation.

Now let's go to S. I'll call this one Sustain Small Business. Why small business? Small businesses—defined as those with 500 or fewer employees—make up 99.9% of all businesses in the United States. They employ about half of the workforce, yet they bear a growing regulatory burden. In 2024 alone, nearly 800 new rules were applied specifically to small businesses. This complexity drives costs that favor large businesses with more resources for compliance.

Remember, the goal is a level playing field. Small businesses do not have teams of lawyers and accountants. Milton Friedman once distinguished between pro-free-enterprise regulations and pro-business regulations. Pro-business regulations often really mean pro-existing business regulations. They serve as barriers to entry. Consider occupational licensing: the exams are often administered by current practitioners, the very people who stand to gain by limiting new competitors. This creates concentration problems across industries. Take banking as an example. After the Great Recession and the financial crisis of 2008–09, regulators moved aggressively against banks to prevent any institution from becoming "too big to fail." What happened instead? The number of new bank charters fell to near zero. Many small community banks went out of business, surrendered their charters, or merged into larger institutions. The result: increased market concentration. In 2007, the top five U.S. banks held 24% of all federally insured deposits. By 2022, their share had grown to 37%—a 50% increase—despite all that regulation intended to prevent exactly that outcome. What could go wrong, right?

So, what should we do for small businesses? Streamline regulation. That's a given. But beyond that, a few of my friends pointed to programs that actually work. I was skeptical, so I looked into it myself. The Small Business Administration (SBA) loan program, for instance, appears to be a net positive for U.S. taxpayers. Surprisingly, the government actually earns a small return on it—a rare outcome in a landscape where many programs fail to deliver. How could it be that the SBA loan program might actually be successful? A few friends and I speculated that it has something most government programs lack: accountability. Applicants for an SBA loan to buy a small business must sign a personal guarantee and often pledge their home, if they have one, as collateral. In other words, they have skin in the game. That element of accountability may explain why the program performs better than most government programs. Another reform idea: simplify selling to

government. I heard this over and over. It is extremely difficult for small businesses to sell to government, even though government at all levels is one of the largest consumers of goods and services in the country. Small firms often lack the resources to navigate the compliance process, which effectively shuts them out of government contracts. So that's "S"—Sustain Small Business.

Now we move to T: Tackle Tax Reform. Businesses face a host of taxes—employment, property, income, tariffs. The tax code has ballooned from just a few dozen pages a century ago to thousands of pages today, plus hundreds of thousands of pages of explanatory guidance. If I were going to bring a chainsaw to government, this is where I'd start. The White House Office of Information and Regulatory Affairs estimated that in 2024, Americans would spend nearly 8 billion hours filing and complying with tax requirements. The Tax Foundation calculated the value of that time at more than half a trillion dollars—about 2% of GDP—just to comply, not to pay the tax. For U.S. businesses, that's hundreds of billions of dollars spent simply trying not to go to jail. This burden favors large companies that can afford armies of accountants and tax lawyers. Small businesses cannot. So, what should we do with the tax code?

First, codify provisions rather than letting them sunset. If you're making a major investment—building a plant, hiring workers, expanding R&D—and your planning horizon crosses a tax code sunset, the uncertainty can derail the entire business case. Even modest rate changes can make or break an investment. Second, remove special-interest carveouts. Much of the tax code is written to exempt certain businesses, industries, or types of income—today, for instance, we're talking about exempting tip income or overtime. These carveouts don't create a level playing field; they tilt it. Third, address the coming wealth transfer. The U.S. is about to experience the largest intergenerational transfer of wealth in history as baby boomers pass on their assets—much of it tied up in small businesses. Right now, transferring ownership is costly and threatens the survival of those businesses. Farms are the classic example: land-heavy, low-margin enterprises where heirs often have to sell off acreage just to pay estate taxes. That reduces the value of the business—or eliminates its ability to operate. We need reforms to preserve these businesses through generational transitions. Fourth, fix depreciation schedules. Without getting too deep into accounting, our depreciation rules often stretch write-offs beyond an asset's actual useful life. With inflation and the time value of money, businesses may never truly recoup the cost of their investments. That stifles growth. So that's T, Tax Reform.

Next is L: Legislate. What do I mean by that? Congress has delegated too much authority to federal agencies, and state legislatures have done the same at the state level. Legislators need to reclaim their role: rein in spending and legislate directly—without creating undue burdens on American businesses. A couple of areas are especially ripe for this, and many in my network emphasized them. We need to bring our legal framework into the 21st century, especially around emerging trends in cybersecurity, data protection, artificial intelligence—and I'll add one more: legal immigration. A lot of emphasis is rightly placed on illegal immigration and border issues, but what about legal immigration? Congress hasn't updated legal immigration laws in 35 years. Think about how much our economy and population have grown in that time, and yet we've made no reforms. When people talk about legal immigration, the focus is often on digital-age workers—H-1B visas and the

like. But the reality is we also need skilled trades and unskilled workers. The truth is, we are tens of thousands of plumbers, electricians, and HVAC technicians short, and looming retirements over the next decade will only worsen the shortage. Legal immigration is one way to address this, but Congress hasn't acted. They need to. So that's R, S, T, L.

Now N: Nix the Nonsense. This is straight from business leaders. We haven't had a balanced budget since 1996. Government shutdowns keep happening—we'll likely hear about another this summer because we barely funded the government. The debt ceiling looms again. Crony capitalism, lobbyists picking winners and losers, special carveouts—entrepreneurs are saying unequivocally: nix the nonsense. Stop the silliness.

Finally, E: Eliminate Debt and Deficits. We haven't had a balanced budget since 2001—almost 25 years ago. Instead, Congress continues running deficits. To make matters worse, lawmakers really only control about 20% of the federal budget. The rest is locked into Medicare, Social Security, and interest on the national debt. And that debt is at record highs. How did we get here? President Biden added about $8.5 trillion to the debt. The first Trump administration added about $7.5 trillion. That means in just eight years—out of a nearly 250-year history—we've accumulated nearly half of our total national debt. Business leaders on both sides of the aisle see the same thing: a lack of fiscal sustainability is a universal risk. It threatens every American and every business, large and small. We need to get our house in order.

So that's R, S, T, L, N, and E. In *Wheel of Fortune*, when you reach the bonus round, you get to pick your own additional letters. I've chosen C. Why C? Because when I asked my network, I kept hearing words that begin with C: we need more certainty, clarity, consistency, communication, culture, character, compromise. All good words. But the one I chose is civility. What business leaders want most right now is for government to cultivate a culture of greater civility. Let me share a story. In 2016, my son was in college. That fall, leading up to the presidential election between Donald Trump and Hillary Clinton, we were channel surfing. (Does anyone still channel surf? Okay, good.) We stumbled on C-SPAN, showing a 1992 presidential debate between George H.W. Bush, Bill Clinton, and independent Ross Perot. We watched the last 25 minutes. When it ended, my son turned to me and said, "How far we've fallen in less than 25 years. These people were generally civil to each other. They rarely talked over each other. They didn't yell or call each other names like kids on a playground. They made real policy points, articulated their differences, and did it respectfully." He watched 25 minutes of an old debate and came to that conclusion. Think about what we've come to tolerate.

Imagine this: who here has ever held a job of any kind? Who hasn't but hopes to someday? Imagine going to work for a company where the CEO spoke to employees, customers, shareholders, and suppliers the way our most senior elected officials speak to each other, to their opponents, and to us—their citizens, their customers. We'd run that CEO out of town in no time. So why do we tolerate it from our leaders? And worse, why do we sometimes encourage it? I believe there's a real opportunity for us, as business people, to demand a stronger culture of civility from our elected officials. Dr. Orval Watts, in his introduction to *The Northwood Idea*, described business as a noble profession. That has always resonated with me. If business is noble, then it falls on us to hold our officials accountable. Throughout my career, I've heard: it's not just what you do, it's how you do it. Performance reviews bear this out—even the star

salesperson who isn't a team player doesn't last long in the right organizational culture. The same should apply in politics. That's why I emphasize the need for a stronger culture of civility.

So, let's bring it home. I've shared some key reform areas, explained why I believe they matter, and highlighted a few specific examples. Each of these topics could easily fill 30 minutes on its own, but the common thread is this: we need a level playing field. We cannot let the tax code pick winners and losers. We need Congress to do its job—which, by definition, requires compromise. How did we get here? It didn't happen overnight. It took decades. It took generations. And much of it happened on my generation's watch, and on my parents' generation's watch.

So, what comes next? With all the government interference in business today, is U.S. decline inevitable? What would Hayek say? One of the criticisms of *The Road to Serfdom* was the so-called "inevitability thesis"—the idea that once government intervenes in the economy, totalitarianism is unavoidable. Hayek pushed back. He argued that left unchecked, intervention leads that way, yes—but people can stand up and say, "I don't like this direction," and reverse course.

So, what's my prescription for change? Frankly, it's with you—especially the students in this room. You are the next generation of entrepreneurs, business owners, and leaders. What will you do? Will you stand by and watch, or will you agitate for the changes we've discussed today? Let me close with a thought from my playlist. I'm a big music fan, and one of Coldplay's first hits, "Clocks," includes the lyric: "Am I a part of the cure, or am I a part of the disease?" Personally, I want to be part of the cure. That's one reason I find so much energy being with you here today. I hope you'll choose that as well. Otherwise—wait for it, here comes the cliché—you'll remain part of the tyranny of the status quo.

**Research Notes**

This article is part of our Letters series, which features concise reflections from members of our academic community on a wide range of topics. "Don't Raise the Minimum Wage" by Kristin Tokarev and Dr. Alex Tokarev presents a focused argument against proposed increases in the federal minimum wage, drawing on empirical evidence and economic reasoning. The piece is intended to contribute to ongoing policy discussions by offering a clear and accessible perspective that may also connect to broader research agendas.

## Don't Raise the Minimum Wage

*Kristin Tokarev and Alex Tokarev*

While evaluating the latest proposal to increase the federal minimum wage to $17 (the Raise the Wage Act), the Congressional Budget Office acknowledges that it raises labor costs and lowers profits. This will force employers to consider alternatives such as hiring more experienced workers. Even a $15 minimum wage will destroy between 1.4 and 2.7 million jobs. It will lead to cutting employees' hours, layoffs, replacing workers with machines, outsourcing, business closures, reducing benefits, and higher consumer prices (Woods 2008).

### *Economic and Workplace Consequences*

It will lower the long-run employment rates of approximately 60% of non-college workers who initially earned less (Parameshwaran 2023). A previous increase in the minimum wage by just a dollar inflicted a lot of pain. The%age of workers working more than 20 hours per week (making them eligible for retirement benefits) decreased by 23%, while the percentage of workers with more than 30 hours per week (making them eligible for health care benefits) decreased by 14.9%. The net result for the low-skilled workers in a typical California store? Total wage compensation decreased by 13.6% (Yu, Mankad, & Shunko 2021).

The damage was not limited to reduced wage compensation and the loss of important benefits. Employers were forced to make the work schedules less consistent. Employees found it much harder to balance work obligations and personal lives. It became more challenging to juggle multiple jobs to earn enough money to pay all the bills. It reduced the average employee's annual wage compensation by $1,590. Working fewer hours, losing benefits, and increased schedule inconsistency were equivalent to an 11.6% drop in income (Yu, Mankad, & Shunko 2021). The effects were lower satisfaction and motivation, fewer opportunities to improve skills through on-the-job training, and higher turnover rates for the firms due to reduced ability to hire and keep better workers. For the economy, that means lower long-run productivity gains and suppressed economic growth.

### *Vulnerable Populations and Social Effects*

When the minimum wage exceeds the market value of a lower-skilled worker's output, he becomes unemployable. No manager will hire or retain an employee when labor costs exceed sales revenues. Those who lose their jobs first are the most vulnerable individuals. They not only have the lowest productivity, but often lack basic education, do not own cars, and reside in areas with no convenient public transportation. Many live in households with a host of problems including substance abuse and mental illness. These factors make the victims of minimum wage restrictions more exposed to economic insecurity and homelessness.

According to evidence summarized in Hill (2023), using U.S. Department of Housing and Urban Development data, municipalities where it rose by less than $1 per hour suffered a 15% rise in homelessness. Where it jumped by more than $1 per hour, homelessness rose 25%. The more time passed, the worse the crisis grew. When remuneration for work-related activities grows by political decree (such as minimum wage laws) instead of market changes

(such as increased productivity), employees with fewer skills face more competition. Workers from other regions migrate to cities with higher wages, increasing the cost of renting apartments for the locals. Those who were voluntarily unemployed, now have a stronger incentive to enter the labor market. As a result, the more productive workers displace the ones that government intervention intended to "lift out of poverty."

***Impact on Businesses and Families***

Like many other government interventions, minimum wage laws tilt the playing field in favor of big corporations against small and new businesses. Data from the Bureau of Labor Statistics shows that firms with less than 100 workers paid an average weekly wage of $976. That's where you find almost half of America's minimum-wage workers. Businesses with more than 1000 employees paid almost twice as much - $1,914 per week. Increasing the minimum wage worsens the financial health of small businesses in lower-income areas, leading to limited access to bank credit, more loan defaults, declining employment numbers, a lower entry, and a higher exit rate.

A $17 per hour minimum wage will increase childcare costs by 20% throughout the country. For the average family with two children, this translates into additional expenses of $4,185 per year (Greszler 2023). The lower the costs of living in your state are, the worse that law will impact you. Parents in Alabama, Louisiana, Mississippi, and West Virginia may be forced to pay 41 to 48% more (Greszler 2023). A price increase of $3,640 per year means that many working families will no longer be able to afford childcare services. In two-parent households, one of the spouses may be forced to quit working, resulting in lower income for the family and loss of childcare jobs. Single-parent households will be pushed to turn to non-licensed providers, with increased risks for the children (Greszler 2023).

***Underemployment and Market Distortions***

The artificially high price for hiring less productive individuals may not necessarily decrease the number of such employees. Instead, it could lower the number of hours they work. When you cut costs by installing a kiosk at your burger joint, you will no longer need as many teenagers on deck at any given time. Now you will rotate them, so they come to work every other day. Underemployment will decrease their total income, yet the careless or biased researcher will report none of it. You may close your restaurant between 2 and 5 p.m. when business is too slow to cover your labor expenses. In this case, instead of having a single employee work from 11 a.m. to 8 p.m., you may hire two people for two separate three-hour shifts. Job loss masquerading as increased employment.

***Rights and Political Incentives***

Most importantly, political acts that criminalize free choices violate our rights. I may have reasons to conclude that one side of an exchange is being ripped off. One's feelings give no right to meddle in the lives of others and demand that he pays more, or that she charges less. And if it is criminal for me to use threats of violence against those who deviate from the prices I prefer, it should be just as criminal for elected public servants to impose minimum wage restrictions (and rent controls) (Friedman, 1980). The government should not be abused to harass, plunder, and incarcerate those who make voluntary choices.

As shown in the previous sections, with evidence demonstrating the counterproductive effects of minimum wage laws, one may be mystified by the widespread support of these harmful restrictions in America as well as many other countries. To understand why it happens, consider the following three groups of decision-makers: voters, their public servants, and union bosses. Most of the electorate is economophobic. Even if you supply such people with compelling facts and sound reasoning against their beliefs, they will choose to stay willfully ignorant. Voters want to feel good about themselves and to be

perceived as compassionate. Supporting candidates who promise to impose tougher minimum wage restrictions is a low-cost way of virtue signaling; like wearing a mask or displaying a rainbow flag.

The second category of players are the people who run for office in the state and national legislatures. Their motivations are as transparent as it gets. They all need votes and most of them crave the power that comes with the job. With so many gullible voters, a promise that raising the minimum wage will improve the life of the poor worker by shrinking the profit of the greedy entrepreneur is the politician's low-cost way of virtue signaling in the pursuit of his selfish goals (Buchanan & Tullock, 1962).

There is a third group of decision-makers whose motivations are hidden from us, and their role is most nefarious. They are the honchos of some of the best-organized special interest groups. As Milton Friedman noted in his book *Free to Choose*, their experts are the chief promoters of raising the minimum wage. Considering that unionized employees who pay for those campaigns earn wages that are well above the proposed minimums, one may be tempted to conclude that their guilds do it out of solidarity. Any professional guild, however, exists with the sole purpose of promoting the interests of its members.

In many fields, skilled and unskilled labor are substitutes. The only way that less productive workers can compete against those who are more talented and experienced is by offering to be paid less per hour. The most effective way for the skilled members of a labor union to obtain higher incomes and more job security is to make unskilled labor more expensive through political manipulations.

### *Conclusion*

Thus, minimum wage laws are not just ineffective. Their worst feature is not that they cause economic damage. Minimum-wage laws are not a textbook example of policymaking with good intentions that produce bad unintended consequences. They are designed to make the poor people dependent on government handouts while helping their proponents gain more power, money, and respect.

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**Research Notes**

This article is part of our Letters series, which features concise reflections from members of our academic community on a wide range of topics. "Green Jobs: Boon or Boondoggle" by Dr. Dale Matcheck examines the economic case for government subsidies aimed at promoting "green jobs." The article argues that claims of widespread job creation and long-term economic benefits are overstated, emphasizing instead the trade-offs and unintended consequences associated with such policies. Drawing on economic theory and empirical evidence, it contends that green job initiatives often reallocate resources rather than generate net employment gains, introduce inefficiencies, and are shaped by political incentives rather than market signals. The piece also highlights historical and international examples to illustrate how similar policies have produced mixed or disappointing results, ultimately questioning whether green industrial policy is an effective or sustainable approach to addressing environmental and economic challenges.

## Green Jobs: Boon or Boondoggle

*Dale Matcheck*

Historically, advocates of renewable energy subsidies have emphasized their environmental benefits. Recently however, these programs have been touted for their economic benefits as well (Zhao, Guo and Fu 2014). The argument that government spending on green technology will create jobs is just a specific example of the more general Keynesian argument that any increase in government spending will create jobs (Harris 2013). The counter argument is that these programs merely divert spending from other sectors of the economy, with ambiguous effects on net job creation (Ravier and Cachanosky 2015). But there are a number of distinctive claims made by green jobs proponents that are worth looking at more closely.

First, the "free lunch" that proponents of conventional Keynesian policy believe in is available only when the economy is experiencing unusually high and persistent rates of unemployment. Otherwise, public spending merely crowds out spending on private priorities (Ravier and Cachanosky 2015). On the other hand, the "free lunch" that green jobs proponents believe in are available regardless of current economic conditions. In particular, efforts of public policy to reduce fossil fuel consumption will "pay for themselves" in the long run. For example, suppose that a driver could easily save enough in operating costs to cover the initial higher purchase price of an electric car. Create a tax credit to do it and voila! You've just created a net increase in wealth. Obviously, this is a good idea any time, not just during recessions. This makes the green jobs program more of an industrial policy than a stabilization policy. The problem with this argument is that it based on two doubtful assumptions. The first is that government bureaucrats know more about these opportunities than the people directly affected by them. The second assumption is that industrial policy will be based on this superior knowledge rather than political considerations. Both theory and experience should convince us that neither assumption is justified (Hayek 1945; Buchanan and Tullock 1965).

A second argument that is sometimes used is that green jobs have a "bigger jobs multiplier." This may in fact be true. But if so, would that be a reason to support the policy? For instance, Wei, Patadia and Kammen (2010) show that "aggressive energy efficiency measures combined with a 30% renewable portfolio standards target in 2030 can generate over 4 million full-time-equivalent job-years by 2030 while increasing nuclear power to 25% and carbon capture and storage to 10% of overall generation in 2030 can yield an additional 500,000 job-years." In other words, a shift to renewable energy will reduce the average product of labor. If so, this would hardly be a compelling economic argument in favor of renewable energy. Imagine if we tried to apply this argument to agriculture. If we were to return to 19$^{th}$ century methods, then we could create millions of jobs in the agricultural sector! Such an argument is obviously absurd. There is a reason why there are relatively few

farmers in wealthy countries compared to developing ones.

A third claim is that subsidies required will only be temporary, but the jobs created will be permanent. Proponents acknowledge that alternative energy is more expensive and less reliable than conventional sources now and must be heavily subsidized during the initial stages. Historical data compiled by the American Wind Energy Association show that in years following the expiration of the production tax credit for wind energy, installations—and the jobs that depend on them—dropped by as much as 93% within a year (Union of Concerned Scientists 2015). But they also argue that the cost of these subsidies will fall as the industry matures. The argument is based on selective optimism regarding the future of energy prices. The assumption is that technological innovation and mass production will allow the price per delivered kWh to fall rapidly in the green energy sector, while it rises inexorably in the non-renewable sector. Unfortunately, these forecasts could be wrong on both counts. For one thing, renewable sources require specific geographical features to be efficient—a bountiful supply of land, sunshine or wind, for example. Areas where these natural advantages are found near population centers are scarce, and as the industry expands beyond these most favorable locations, expensive delivery and backup systems add to the total cost. In addition, the forecasts that non-renewable energy prices will rise rapidly have been wrong before and could be wrong again. For example, the technique of "fracking" has led to a dramatic increase in the projected availability of inexpensive natural gas (Schrope 2012). Scientific discovery and entrepreneurial innovation will continue to occur in conventional energy sector. Will renewable energy be able to compete on an equal basis? Maybe—we don't really know for sure. But one thing we do know is that as the industry expands, it will create a strong political constituency capable of ensuring its continuing survival regardless of its economic viability. The European governments that supported Airbus had to wait 20 years before it had its first profitable year. Today, decades after its founding, it is capable of competing on its own but is still receiving billions of dollars in government subsidized loans for new product development.

This pattern has deep roots. John Stuart Mill defended infant industry protection in *Principles of Political Economy* (1848) but stressed it should be temporary and warned that such measures can become permanent as vested interests emerge. The Airbus example is not an anomaly; it is the rule.

The fourth distinction between green jobs subsidies and a conventional Keynesian stimulus is the obvious one implied by the word "green." Unlike other government spending, these subsidies will result in environmental as well as economic benefits (Zhao, Guo and Fu 2014). Maybe so, but the existence of some environmental benefit does not necessarily make it a good environmental policy. Over the last several decades, environmental economists have developed a relatively strong consensus for evaluating environmental policy. Although it varies in detail from case to case, what it generally boils down to is this: policy makers should determine the desired outcome of environmental policy, but the market should determine how that outcome is achieved. This implies that in some form or another, there must be a price associated with increasing pollution. This provides polluters with an incentive to continually reduce pollution, as well as the flexibility they need to do so at the lowest possible cost. It definitely does not imply that government should use industrial policy to identify and promote a particular solution.

We have been down this road before. Since 1961, the federal government has spent $172 billion on energy research (Dooley 2008). One particularly costly project was the Great Plains Coal Gasification Plant, built with substantial government support in Beulah, North Dakota in 1979 to extract methane from coal. At a cost of $2.1 billion, it was one of the most expensive construction projects of its era (Bailey 2010). Unfortunately, it could not keep cheap and plentiful supplies of natural gas available during the

1980's. It was sold in 1988 for only $85 million. This was not an atypical result. A study conducted in 2001 by the National Research Council evaluated the returns on federal energy R&D spending since 1978. The results were striking: a mere 0.1% of the expenditure accounted for three-quarters of the measurable benefit, concentrated in three modest programs—energy-efficient windows, electronic ballasts for fluorescent lighting, and better refrigerators—which converted $13 million in spending into $30 billion in benefits. Three-quarters of total expenditure, amounting to roughly $9 billion, produced no quantifiable economic benefit, with half of that sum having been applied to synthetic fuel projects that proved decades premature (National Research Council 2001; Bailey 2009). Robert Fri, the former chair of the NRC committee that produced these findings, summarized the pattern bluntly: "The government is very good at starting energy projects that it believes will solve energy problems, but it is not very good at generating the intended results" (Bailey 2009).

Some of the cautionary tales come from overseas. Although Denmark is often used as a success story, its heavy investment in wind technology also illustrates the problems associated with renewable energy. Government support for wind energy has resulted in producing the heaviest concentration of wind turbines found anywhere. Local geography favors wind power, as winds offshore are relatively strong and the sea relatively shallow. In spite of these natural advantages, these turbines produce only 20% of Denmark's electricity, and that is not supplied consistently (Lund et al. 2010). During off-peak hours, the surplus energy produced by wind power is dumped at discounted rates to neighboring countries, while during peak hours or when the wind is not blowing, the Danes must import electricity from their neighbors at a much higher price. Without access to this grid, Denmark would have difficulty obtaining a reliable supply of energy and would have to supplement its system with conventional backup sources. As it is, the average cost of electricity is high per kilowatt hour. Hence, the average Dane pays more than the average English citizen pays.

Spain's government also invested heavily in renewable sources of energy, resulting in a "solar bubble." When government finances came under pressure during the financial crisis, the subsidies for solar power were reduced. In 2009, the market for photovoltaic cells collapsed from more than $22 billion to less than $4 billion. Even before the crash, the economic benefits were questionable. A study conducted by economists King Juan Carlos University in Madrid estimated that each green job created cost approximately €571,138, and the inefficiency in the power industry ultimately resulted in a net loss of jobs for the Spanish economy (Álvarez, Jara, Julián, Bielsa 2010). In this country, we went through a similar boom-bust cycle in our ethanol industry. Germany, which has pursued one of the most ambitious renewable energy programs in the world, offers a further illustration: despite substantial investment, German households face electricity prices that are significantly higher than those in the United States and among the highest in the European Union (Eurostat 2024; U.S. Energy Information Administration 2024).

In spite of this dubious record, government enthusiasm for spending on green jobs remains high. What is the rationale for this massive government intervention in the economy? There appear to be three main drivers. The first is energy independence. In the 1970's, political events in the Middle East and a sharp spike in gasoline prices seemed to galvanize public support for this goal. However, the pursuit of energy independence does not necessarily imply a move away from fossil fuels. Also, cutting yourself off from inexpensive sources of basic resources does not appear to be the best strategy for net job creation. Nevertheless, it was the primary objective for George W. Bush's most important environmental policy legislation, the Energy Independence and Security Act of 2007. In 2007, unemployment was not high on the list of voter priorities. That changed when the financial crisis hit main street the following year. Van

Jones, published a popular book entitled "The Green Collar Economy—How One Solution Can Fix Our Two Biggest Problems." What problems was he referring to? Unemployment and climate change. His solution? A "New Green Deal" modeled after the job creation programs of the Great Depression. Clearly Obama was entranced, as he appointed Jones "Special Advisor for Green Jobs, Enterprise and Innovation." In the American Reinvestment and Recovery Act of 2009, Obama included $64 billion in subsidies for green jobs. If you can count lobbyists among the green jobs created by the program, then it must be counted as a stunning success. More than 1,700 organizations have hired energy lobbyists in 2009, almost doubling the amount from 2006 (Loris 2010). With all this money up for grabs, it is not surprising that there has been a corresponding increase in rent-seeking behavior.

One of the first beneficiaries under the program was the Solyndra corporation of California, which obtained more than half billion dollars in loan guarantees. On the day the award was announced, Vice President Joe Biden stated it was "part of the unprecedented investment this Administration is making in renewable energy, and exactly what the Recovery Act is all about." Unfortunately, the company had to cancel plans for its initial public offering when PricewaterhouseCoopers (pwc) questioned its ability to survive as a going concern. In spite of its recent financial troubles, Solyndra's backers, including the American taxpayer, are hoping that their investment will ultimately pay off. In the meantime, the 1,000 jobs that were supposed to be created with government backing have not yet materialized, and last November, the company felt compelled to lay off 17.5% its existing workforce.

It remains to be seen whether the "Green New Deal" can deliver on its economic promises. But even if it fails in this respect, it may be counted as a success if it achieves its environmental goals at a reasonable cost. It is not clear that it will be able to do so. If we accept that man-made climate change is occurring and is likely to have a potentially significant negative impact on human welfare, it doesn't necessarily follow that a rapid switch to today's renewable sources will solve the problem. First of all, the switch is not an economic free lunch; the level of emission reductions necessary to stabilize climate will be extremely costly to achieve. Second, the alternatives available today each have their own set of environmental problems. Third, efforts by individual nations to unilaterally reduce emissions will be insufficient and not matched by similar efforts in other nations. Finally, even if energy from renewable sources grows rapidly, they will still only provide a small amount of our total energy needs. The U.S. Energy Information Administration's Annual Energy Outlook 2011 projects that electricity generation from renewable sources will grow by 72% by 2035, with most of that growth coming from wind and biomass. Yet even under this scenario, renewables would supply only 14% of electricity generation—itself only a fraction of total U.S. energy consumption (U.S. Energy Information Administration 2011).

Recent experience reinforces these concerns. Juhász and Lane (2024) show a sharp rise in green industrial policies since around 2015, especially in G20 countries. The Inflation Reduction Act illustrates the trend: rather than a focused environmental policy, it combines multiple political goals and directs benefits to domestic producers. The result is policy shaped more by political incentives than by economic efficiency, and its global spread reflects convenience rather than effectiveness.

Europe has embarked on a more aggressive campaign to reduce emissions called the 20/20/20 program. The goal is to cut carbon emissions by 20% below 1990 levels by 2020, with 20% of its energy provided by renewables (Tol 2012). It is not clear whether such an ambitious goal can be met, but if so, it won't be cheap. Richard Tol (2012), professor of the economics of climate change at the Vrije Universiteit Amsterdam, has estimated the annual cost to be 210 billion euros per year. What is the expected payoff? The earth in the year 2100 will be 1/10 of 1 degree cooler than it would otherwise be.

These dreary projections have led some people to suggest that our best option may be to use geo-engineering approaches such as "cloud brightening" (achieved by injecting salt spray from seawater into the atmosphere) or human adaptation (changing land use patterns to reduce human vulnerability to climate change). The time may come when we need to choose one of these "solutions" as the least objectionable option left to us. However, it seems that for now, people are lining up into one of two camps, both of which appear to engage in wishful thinking, though in opposite ways. On the one hand, there are those who think we can prevent climate change effectively by following the European example. On the other hand, there are those who think that human activity has no significant effect on climate.

Developing a rational climate change policy under these circumstances is hard enough without adding job creation to the mix of environmental policy objectives. It leads to the adoption of irrational policies like the "cash for clunkers" program that ultimately did very little to help either the environment or the economy. The fact that "cash for clunkers" could be put forward as serious environmental policy and accepted by the voters as such is a sign of all that is wrong with the idea of a "Green Jobs" argument for industrial policy.

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**Research Notes**

This article is part of our Letters series, featuring concise reflections from members of our academic community. “Whistleblowers as Guardians of Capitalism, Free Enterprise, and Democracy” by Dr. David J. Bazzetta argues that whistleblowers play a critical role in preserving market integrity and democratic accountability. Drawing on economic reasoning and ethical theory, it examines how whistleblowers deter fraud, promote fair competition, and expose abuses of power, positioning them as essential safeguards of market institutions and liberal democratic systems.

## Whistleblowers as Guardians of Capitalism, Free Enterprise, and Democracy

*David J. Bazzetta*

The origins of whistleblowing can be traced back to the enactment of the False Claims Act of 1863, also known as Lincoln's Law, which empowered individuals—referred to as “Informers”—to expose contractors supplying defective or substandard goods to the Union Army during the Civil War (Whistleblower Law Collaborative 2025). The term “whistleblower” entered the American lexicon in the 1970s, reflecting a societal shift in the view of individuals who disclose organizational misconduct. Since then, a dichotomy has emerged: some view whistleblowers as heroes who uphold moral integrity, while others perceive them as villains or traitors (Mayer 2016). These opposite perceptions influence how whistleblowers are treated within organizations and in society overall.

In examining the role of whistleblowers within various economic and political systems, it is evident that their actions serve critical functions. In capitalist economies, whistleblowers help prevent market distortions caused by fraudulent practices, thereby preserving market integrity. Within free enterprise systems, their disclosures promote fair competition by exposing practices that hinder market efficiency. In democratic societies, those that shine a light on corruption, waste, fraud and abuse, are vital for maintaining public trust, uncovering abuses of power, and ensuring accountability among leaders and institutions. These practices collectively foster an environment of transparency and ethical conduct within political systems.

This paper argues that whistleblowers act as guardians of Western liberal democracies. More precisely, they protect the elements that preserve the democratic and capitalist, market-driven nature of Western societies. They serve as a check on both governmental and corporate power, ensuring that these pillars remain functional and ethically sound. To understand the motivations behind individuals choosing to report organizational wrongdoings, it is essential to explore the relationship between ethical theory and moral development. Specifically, an exploration of the correlation between deontological ethics and the post-conventional level of cognitive moral development (CMD). Empirical research indicates that decision-making processes related to whistleblowing can be measured and quantified, providing further support for the overarching thesis of this study (Rest 1979; Brabeck 1984).

Specific examples in various economic and political systems will be highlighted to illustrate their functions. In capitalism, actions of whistleblowers have prevented market distortions arising from fraudulent activities, thereby maintaining market integrity. Within free enterprise systems, the results of the moral decisions of individuals promote fair competition by identifying and exposing practices that have hindered market efficiency. In democratic societies, transparency initiatives are essential to uphold public trust by uncovering abuses of power and ensuring accountability among leaders and institutions. These individual practices help preserve the stability and fairness of each system, thereby adding a level of confidence for all stakeholders.

To better understand the structural underpinnings of the decision-making process associated with individuals that decide to report

organizational wrongdoing, we must first establish a relationship between ethical theory and moral development. The correlation between the ethical theory of deontology and the post-conventional level of CMD (cognitive moral development) will be illustrated. Additionally, research results exhibit the fact that the decision-making process can be measured and quantified. Results of that research will further support the general thesis.

Finally, the article will include case studies that exemplify the theoretical and empirical points discussed, enabling readers to evaluate the validity of the premise that whistleblowers are essential guardians of systemic integrity within democratic societies. These case studies will serve to illustrate the complex interplay between ethical principles, moral development, and organizational behavior, ultimately reinforcing the importance of whistleblowing as a mechanism for maintaining transparency and accountability in modern institutions.

### *Conceptual and Theoretical Framework*

Whistle-blowing has been defined as "the disclosure by organization members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action" (Miceli & Near, 1984, 689). Additionally, Alford (2007, 27) contended that "those who defy authority are organizational outliers and are typically labeled whistle-blowers." The term whistle-blower has a European origin referring to the English "bobbies" who blew their whistles to warn of a wrongful act in progress (Magnus & Viswesvaran 2005). In the United States, a formal law known as the False Claims Act was enacted in 1863 to protect whistle-blowers, who at that time were individuals who reported crimes against the U.S. government during the Civil War (Magnus & Viswesvaran 2005).

Aside from the formal definitions of a whistleblower, it is important to understand the cognitive moral structure associated with the decisions of these individuals. What is different about the decisions that these relatively few individuals make compared to most others in the organization that decide to remain silent. It is necessary to illustrate the difference between the term's "ethics" and "morals." Unfortunately, all too often those terms are used interchangeably, when in fact there are distinct differences between the two. Notwithstanding the difference, there is a strong correlation between ethical theory and moral development. Ethics is a theory of philosophy dealing with what is right or wrong, while morals refer to a standard for behavior considered right and good by most people (Walker & Lovat 2017).

### *Normative Ethics and Ethical Theories*

Normative ethics explores what individuals ought to do, addressing fundamental questions such as "how should one act" and "what is right or wrong" (Singer 1991). It encompasses two primary ethical theories: deontology and teleology. Deontology ethics, rooted in the philosophy of Immanuel Kant, emphasizes adherence to universal principles and rules, asserting that moral actions are dictated by duty rather than consequences. In Kant (1963) the concept of the categorical imperative advocates acting morally out of duty, not based on anticipated outcomes. Conversely, teleology ethics, also known as consequentialism, evaluates morality based on the outcomes of actions. A principal belief in teleology is, what will happen to me if I choose this course of action and consider actions morally acceptable if they lead to favorable consequences for the individual (Haines 2006). When comparing these ethical frameworks, whistleblowers tend to align more closely with deontological principles, as their actions are often driven by a sense of duty to uphold moral standards regardless of potential repercussions.

### *Core Moral Values*

According to Kidder (2005), morals encompass five fundamental ideals that together create a moral compass: (1) Honesty, (2) Responsibility, (3) Respectfulness, (4) Fairness, and (5) Compassion. These values are the foundation for moral behavior

and are essential for fostering trust and integrity within organizations and society at large.

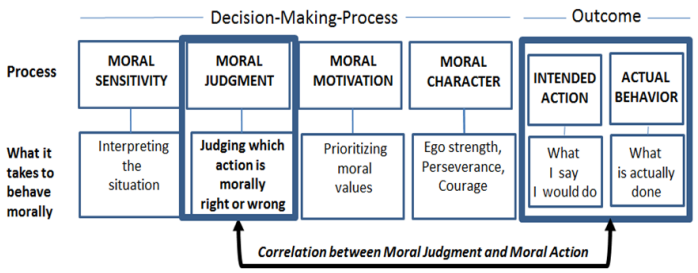
Moral development is an internal sense of how personal justice, social duty, and ethical conduct evolves as an individual matures (Vozzola & Senland 2021). A lineage of research, traced back to Sigmund Freud linked morality to social norms, described as shared standards of acceptable behavior by a group (Lapinski & Rimal 2005). B.F. Skinner, like Freud, focused on external forces (positive or negative rewards) as the primary driver of human decision-making and moral development. Unlike Freud and Skinner, Jean Piaget proposed that children's moral reasoning changes as their structures change and develop. Building on the work of Piaget, Lawrence Kohlberg designed a six-stage model of moral reasoning grouped into three levels. Kohlberg proposed that moral reasoning evolves through a series of stages, beginning with pre-conventional levels focused on obedience and self-interest, progressing to conventional levels emphasizing social order and conformity, and culminating in post-conventional levels where universal principles, duties and individual rights are prioritized (Kohlberg 1976).

*Figure 1. Cognitive Moral Development. Levels and Stages of CMD (Based on description from Kohlberg, 1976).*

| Level of CMD | Stage of CMD |
|---|---|
| **Post-Conventional** *Shared standards Rights, duties and principles* | **Stage 6:** Guided by moral principle of justice. |
| | **Stage 5:** Social contract rules & laws of social good. |
| **Conventional** *Assessing personal consequences* | **Stage 4:** Judgments based on the relative rules and laws of society. |
| | **Stage 3:** Decisions based on the approval of others. |
| **Pre-Conventional** *Values based on external events* | **Stage 2:** Acting to further one's own interest. |
| | **Stage 1:** Acting to avoid punishment. |

A correlation between deontology ethics and the post-conventional level of moral development is established. This hierarchy can be used to categorize results of the ethical decision-making process. In Rest (1979), decisions are measured and quantified using the Four-Component Model (FCM) for Moral Behavior. The FCM is a framework that describes the four psychological components determining moral behavior. It starts with the question, "When a person is behaving morally, what must we suppose happened psychologically to produce that behavior?" (Rest 1979, 3). Rest (1979) further states that to behave morally a person must perform at least four steps in a psychological process shown in Figure 2.

*Figure 2. Four Component Model and the Correlation between Moral Judgment and Moral Action (Based on description from Rest, 1986)*




To reliably measure levels of moral judgement, the Defining Issues Test (DIT), developed by James Rest, measures moral development by assessing the extent to which individuals rely on post-conventional ethical reasoning, expressed as a P-score. While the DIT corresponds specifically to the moral judgment component of Rest's Four-Component Model, ethical behavior also requires moral sensitivity, moral motivation, and moral character. Research consistently finds that whistleblowers score higher on P-scores than non-whistleblowers, reflecting principled reasoning grounded in justice and rights rather than authority or self-interest. Brabeck (1984) found that individuals who engage in whistleblowing tend to demonstrate higher levels of principled, post-conventional moral reasoning than those who do not. However, a traditional protocol, (i.e., DIT survey) provides results based on an individual's expected or

espoused actions. In other words, test scores provide measurements of responses to questions related to actions an individual "would" take in a hypothetical ethical scenario. Actual behavior is difficult to measure. In a retrodictive study of more than 200 whistleblowers, Bazzetta (2015), found that the average P-score of whistleblowers surveyed was higher than the national norm and nearly 50% scored of those whistleblowers surveyed scored at the post-conventional level of CMD (Bazzetta 2015, p.191). This unique behavior demonstrated by whistleblowers emerges when high moral judgment is combined with exceptional moral motivation and character, thus explaining why whistleblowers remain rare even among all others that have achieved advanced moral reasoning scores.

***Whistleblowers as Guardians of Capitalism***

Capitalism is defined as an economic system characterized by private ownership of the means of production, where goods and services are created for profit in a competitive free market (Rosser & Rosser 2003). Capitalism relies on the principles of individual initiative, capital accumulation, and decentralized decision-making. However, the integrity of this system is dependent on transparency and ethical conduct to ensure that markets remain fair and competitive. When corporate leaders undermine these principles through fraud or deception, they threaten the stability of the entire capitalist framework.

Enron Corporation was an energy trading, natural gas, and electric utilities company located in Houston, Texas with nearly 21,000 employees by mid-2001. Revenue in the year 2000 was more than $100 billion and Enron was named as "America's most innovative companies for six consecutive years by Fortune" (Fortune 2001). Enron was a company that was able to profit by providing the delivery of gas to utility companies and businesses at a fair market price. Enron was listed as the seventh largest company in the United States in the year 2000 (Francis, 2024).

The CFO Jeffrey Skilling and the CEO Ken Lay played major roles in the Enron scandal. Both were aware of, condoned, and signed off on financial fraud with each quarterly report filed with the SEC. At the center of the fraud was the concealment of debt, and creation of SPE's (Special Purpose Entities). Lay and Skilling used off-the-books partnerships, to conceal and falsely report hundreds of millions of dollars to investors and employees while selling their own company's shares. Enron's top-level management has violated several accounting laws, SPE laws, and bent the accounting rules to satisfy their own desires for profit in the short term but ignoring long term repercussions for investors, stockholders, employees, and the business itself.

Sherron Watkins, a former Vice President at Enron, is often hailed as a "guardian of capitalism" due to her role as a whistleblower (Healey & Palepu 2003). In 2001, Watkins, as VP of Corporate Development, reporting directly to the CFO Andrew Fastow, discovered massive accounting irregularities that were being used to hide the company's significant debts. Her findings, detailed in her famous memo to Chairman Kenneth Lay, centered on the misuse of off-balance-sheet entities and aggressive accounting methods. Watkins identified complex partnerships imbedded in various Special Purpose Entities (SPE's) such as the "Raptor" and "Condor." These were deals, which were used to hide hundreds of millions of dollars in debt and inflate profits. She realized these entities were not independent, but empty shell companies backed solely by Enron's own declining stock (Watkins 2026).

Watkins had an increasing unease while working on financial forecasts. Her concerns slowly increased into an outright alarm as she delved deeper into the company's accounts. Over several weeks, she gathered information, connecting the dots between obscure financial maneuvers and obvious accounting irregularities.

On August 14, 2001, Sherron Watkins decided she could no longer stay silent. In a courageous act, however still concerned about retaliation, she sent an anonymous memo addressed to Kenneth Lay, Enron's

then-CEO and chairman. A couple of days later, Watkins identified herself as the author and met privately with Lay to discuss her concerns about the accounting irregularities. Watkins warned, "I am incredibly nervous that we [Enron] will implode in a wave of accounting scandals. My 8 years of Enron pride is gone, as I see us as having become a crooked and self-dealing company." (Watkins, 2001, 2). Lay then requested an internal investigation, but no meaningful action was taken to address the issue (Watkins 2026).

Watkins' (2001) seven-page memo to Lay detailed several major concerns, including the use of Special Purpose Entities (SPEs)—such as the "Raptor" and "Condor" deals—to conceal hundreds of millions of dollars in debt and, losses; the abuse of mark-to-market (MTM) accounting to record projected future profits from long-term contracts immediately; and inflated revenue reporting practices in which Enron recognized the full value of trades rather than only brokerage fees, contributing to a 750% increase in reported revenue between 1996 and 2000.

By alerting Enron's Chairman Ken Lay to these elaborate accounting hoaxes, she had hoped to protect the company and its stakeholders from imminent collapse. Her actions demonstrated that for capitalism to function effectively, there must be individuals willing to expose systemic corruption, even at great personal risk.

Watkins' whistleblowing was a corrective force that eventually led to the exposure of one of the largest corporate frauds in history. The collapse of Enron was one of the most devastating financial implosions in U.S. history. The fallout impacted a wide range of stakeholders, from individual employees to global financial institutions.

The collapse resulted in devastating consequences, including the immediate layoff of more than 4,000 employees following the December 2001 bankruptcy filing; the loss of entire retirement savings for approximately 15,000 employees; the destruction of roughly $60 billion in shareholder value as the stock price plunged from $91 per share to less than $1 at the time of bankruptcy; and the dissolution of the CPA firm Arthur Andersen in 2002 after it was found guilty of obstruction of justice for shredding documents related to the Enron case.

The actions of Sherron Watkins served as a catalyst for legislative reforms, such as the Sarbanes-Oxley Act of 2002, which was designed to improve corporate governance and financial disclosure. By holding Enron accountable to the truth, Watkins acted as a guardian for the market's ethical foundations, reinforcing the idea that capitalism cannot exist without accountability and the rule of law and the need for ethical leadership in maintaining integrity of the financial systems upon which capitalistic economies rely.

Whistleblowers play a critical role in "protecting capitalism" by exposing fraud that distorts market values, misleads investors, and creates unfair advantages. By revealing the truth, they help restore market integrity and force the correction of artificial bubbles, even if those corrections are painful for stakeholders.

Examples of other whistleblowers who have been credited with protecting the components of capitalism which include, (1) market accountability, (2) accountability, and (3) rule-of-law, are listed along with the financial impact of their whistleblowing event.

*Figure 3. Whistleblowers and financial impact of their actions (National Whistleblower Center. (n.d.).*

| | | |
|---|---|---|
| Bradley Birkenfeld | UBS Swiss Bank Account Fraud | $25 B |
| Cynthia Cooper | World Com – Accounting Fraud | $11 B |
| Mark Whitacre | Archer Daniels Midland – Global Price Fixing | $600 M |

When corporate cultures lack accountability and transparency, and incentives are misaligned throughout all stakeholders—honest people are forced to make a difficult choice. Corporate America should see whistleblowing as a necessity, and hopefully as an infrequently used, mechanism that assures healthy markets functioning in a robust capitalistic model.

***Whistleblowers as Guardians of Free Enterprise***

Free enterprise is an economic system where private individuals and businesses operate with minimal government intervention, relying on competition, consumer choice, and supply and demand to determine prices and production (Meyer 1994). It is worth noting that while capitalism and free enterprise are often used interchangeably in casual conversation, they each represent distinct frameworks within economic theory.

Capitalism primarily describes a social and economic system defined by the private ownership of the means of production. In *Capitalism and Freedom*, Friedman (1962) argues that capitalism is a necessary condition for political freedom, emphasizing how private ownership serves as a check on government power. Free enterprise, by contrast, refers to the market mechanism itself, highlighting the freedom of individuals and businesses to operate, compete, and trade with minimal government interference. Hayek (1944) focuses on this aspect, warning that centralized planning disrupts the "spontaneous order" of the market, where individuals make free choices.

Essentially, capitalism is the structural foundation of ownership and focuses on who owns the assets whereas free enterprise is the operational practice of market competition and the freedom to exchange the assets.

Free enterprise is characterized by open competition, innovation, and the rule of law. Whistleblowers act as guardians of free enterprise by exposing corruption, fraud, and misconduct that threaten fair competition, stakeholder trust, and the integrity of markets. Through accountability, they help maintain level playing fields, deter unethical behavior, and sustain the unincumbered economic process. Free enterprise emphasizes private ownership, voluntary exchange, and limited state intervention (Hayek 1944). In Nash et al. (2014), free markets are described as an economic system in which privately-owned businesses operate in competitive markets with minimal government intervention, where prices, production, and distribution are primarily determined by voluntary exchange and supply and demand forces. Interfering with elements in that system has caused catastrophic results for stakeholders who rely on the integrity of the system. One example of such system interference can be found in the case *United States v. Bernard L. Madoff*.

Bernie Madoff epitomizes capitalism's greed. Born in 1938 in Queens, N.Y., Madoff was raised in a working-class family. After college, Madoff created and founded a brokerage firm, Bernard L. Madoff Investment Securities, which opened in 1960. He served as chairman of NASDAQ stock exchange for three one-year terms in the 1990s. Madoff operated a Ponzi scheme of unprecedented scale, using his former credentials and industry notoriety from running the NASDAQ to avoid skepticism from individuals that usually express when results are "too good to be true" (Maranzani 2025).

The Madoff scandal exposed a significant failure of free enterprise, involving a $64.8 billion deception that went unnoticed in plain sight. The repercussions extended beyond victims, threatening the credibility of the American financial system itself, by highlighting systemic vulnerabilities and the need for stronger oversight.

Harry Markopolos did not set out to be a whistleblower; he set out to solve a math problem. In 1999, while working for Rampart Investment Management, he was asked to reverse-engineer Madoff's legendary returns. After five minutes of analysis, Markopolos knew it was fraud. After four hours, he had mathematically proven it. "The S&P 100 Index simply did not have enough options volume to support the trades Madoff claimed to be making. It was like a gas station owner claiming he sold 5,000 gallons of gas a day when his tank only held 500." (Markopolos 2010, 127).

Markopolos represents a true "guardian" of free enterprise. He understood that for a market to be

truly free, it must be transparent and interpretable by quantifiable statistics and bound by the laws of mathematics. Between 2000 and 2008, Markopolos sent a series of increasingly frantic memos to the Securities and Exchange Commission (SEC), the most famous titled: "The World's Largest Hedge Fund is a Fraud," (U.S. Securities and Exchange Commission 2008). In his testimony to the U.S. House of Representatives Committee on Financial Services in 2009, Markopolos referenced his 28-page document that was submitted to the SEC detailing the reasons that accounted for the devasting statements regarding the accusations of the BMIS Ponzi scheme (Markopolos 2009).

The house of cards finally collapsed in December 2008, unleashing global devastation with a two-pronged financial impact: a quantitative loss of approximately $64.8 billion in paper wealth—including the life savings of retirees, the endowments of charitable foundations, and the capital of institutional investors—and a qualitative loss marked by a profound erosion of investor confidence, undermining the "willing buyer and willing seller" dynamic on which free enterprise depends (Markopolos 2010). When it became apparent that a highly respected man on Wall Street was a thief and that the institutions that were set up to "guard" free enterprise, had ignored a 19-page roadmap from Markopolos that provided evidence that could have led to Madoff's arrest and stopped the financial scam much earlier—financial investors pulled their capital out of the markets, exacerbating the 2008 financial crisis.

The financial impact of the Madoff whistleblowing event was devasting for all stakeholders, In Markopolos (2010), it was stated "Here was a man (Madoff) that wiped out thousands of families to the tune of $65B." Markopolos went on to state, "If he didn't have a reason to kill me, think about the feeder funds. What is going to happen to their lifestyles? They are all going to be ruined financially, they will all be sued and, hopefully, many of them will go to jail. "If October 2008 hadn't happened, Bernie (Madoff) would have been well on his way to $100 billion and the list of victims would have been much higher" (Markopolos 2010, 306). For Markopolos, this was not just a loss of money; it was a betrayal of the social contract that allows the components of free enterprise to function.

Madoff was sentenced to 150 years in prison, where he died in 2021. However, the result that Markopolos and most other whistleblowers cared most about was the vindication of the truth. (Bazzetta 2015). The Madoff case serves as a permanent warning: Free enterprise is not a license to manipulate individuals into trusting their financial well-being to be stored in a house of cards. It is a sophisticated system that requires vigilant participants and competent referees. By exposing Madoff, Markopolos was not attacking the market—he was trying to guard it from a psychopath that threatened to destroy it from the inside. He proved that in the long run, even the most elaborate lie cannot defeat a man with a calculator and the courage to use it.

Examples of other whistleblowers who have been credited with protecting the components of free enterprise which include, (1) market integrity and fair competition, (2) investor and consumer confidence, and (3) market self-regulation, are listed along with the financial impact of their whistleblowing event.

*Figure 4. Whistleblowers and financial impact of their actions (National Whistleblower Center, n.d.).*

| | | |
|---|---|---|
| Bunny Greenhouse | No Bid – Government Contract to Halliburton | $7 B |
| Tyler Shultz & Erika Cheung | Theranos – Medical Fraud | $9 B |
| John Barnett & Joshua Dean | Boeing – 737 MAX safety issues – led to lost sales | $60 – 100 B |

When corporate cultures lack accountability and transparency, and incentives are misaligned throughout all stakeholders—honest people are forced to make a difficult choice. Corporate America should see whistleblowing as a necessity, and hopefully as an infrequently used, mechanism that assures healthy markets functioning in a robust capitalistic model.

***Whistleblowers as Guardians of Democracy***

Democracy is a system "in which citizens collectively decide by whom and, to some extent, how they will be governed" (Przeworski 2024, 5). Unlike the individuals who expose financial wrongdoing in the capitalistic system of free enterprise, whistleblowers defending democracy are often described as individuals who prioritize the public's right to know over personal retribution or safety.

Whistleblowers play a significant role in maintaining transparency and accountability within government institutions by exposing misconduct, corruption, or illegal activities. Among the most notable whistleblowers whose actions can be attributed to defending democracy are Daniel Ellsberg, Mark Felt, and Edward Snowden. Despite having unique backgrounds, and operating in different eras, they share common traits and actions related to revealing government secrets and exposing egregious misconduct.

Daniel Ellsberg is known for releasing the Pentagon Papers in 1971, a classified top-secret report detailing the United States' political and military involvement in Vietnam from 1945 to 1968. The documents revealed that the U.S. government had misled the public and Congress about the scope and progress of the Vietnam War.

Daniel Ellsberg had served in the Marine Corps from1954 – 1957. He then worked in several advisory positions developing information related to the Vietnam War. He lived in Saigon for two years, gaining first-hand experience of what he later referred to as the "pacification" of the U.S. position in the war (Biography.com Editors, 2023). In 1967, while working at the Rand Corporation, Ellsberg was chosen to work on a top-secret project entitled "U.S Decision-Making in Vietnam, 1945 – 1968." Better known as the "Pentagon Papers," a 7,000-page, 47-volume study which Ellsberg called "evidence of two-decades of deceptions, stolen elections, lies, and murder." (Biography.com Editors, 2023).

Ellsberg made the decision to do what he could to shorten the war, regardless of the personal consequences. He started photocopying the entire classified study and offered it to several congressmen, but none were willing to make it public. So, in March of 1977, he leaked the study by providing the Pentagon Papers to the *New York Times*, which started publishing them immediately. Ellsberg was charged with violations of the Espionage Act, but the case ended as a mistrial. Ellsberg's actions fostered increased public skepticism about government transparency and led to scrutiny of government policies. His act of whistleblowing was motivated by a desire to inform the public and challenge government deception.

Mark Felt, known as "Deep Throat," was an FBI associate director who became famous for providing critical information to journalists during the Watergate scandal in the early 1970s. His leaks helped uncover the extent of the Nixon administration's involvement in illegal activities, including political espionage and sabotage. Felt's disclosures played a pivotal role in the eventual resignation of President Richard Nixon. His actions exemplify whistleblowing within a government agency, aimed at exposing corruption at the highest levels of government.

Felt joined the Federal Bureau of Investigation (FBI) in 1942, a developed into long and eventful career. During the early years at the FBI, Felt quickly distinguished himself as a diligent and resourceful agent. He gained a reputation for his meticulous attention to detail and his dedication to upholding the rule-of-law.

The early 1970's was a time of "continuous tension" in the United States. After the war in Vietnam, and the release of the Pentagon Papers in 1971, the FBI was under pressure to "plug the leaks" in the mainstream media (Richard Nixon Presidential Library and Museum, n.d.). The culmination of those activities occurred on June 17, 1972, with a break-into the Democratic National Committee at the Watergate Hotel in Washington, D.C. The five men who broke into the hotel room were planting listening devices

and copying documents to help ensure a strategy for President Nixon to win re-election in November 1972. In retrospect, that illegal entry to steal information was not necessary since Nixon won re-election by a landslide with 97% of the electoral college votes and 61% of the popular vote.

As the Associate Director of the FBI, Mark Felt had details of illegal methods and sources that all pointed high level Nixon staffers involvement including the president himself. In this high-level role, Mark Felt acted as the primary secret source known as "Deep Throat" for *Washington Post* reporters Bob Woodward and Carl Bernstein, providing critical leads and information that exposed the Watergate scandal and led to the resignation of President Nixon on August 8, 1974. After the release of the "smoking gun" Oval Office audio tape recordings that proved Nixon's involvement in the cover-up of the Watergate scandal (Great Dox, 2022).

Mark Felt is a guardian of democracy because of his clandestine efforts to protect the integrity of the U.S. government from executive overreach. As the Associate Director of the FBI, his role as a whistleblower was to ensure that a persistent "culture of lawlessness" within the Nixon administration failed in obstructing justice or subverting the democratic process (Great Dox, 2022).

Edward Snowden is widely regarded as a guardian of democracy for his role in exposing the massive, secret reach of global surveillance, especially the spying on U.S. citizens, that immediately shifted attention to digital privacy and government accountability. His decision also began his efforts toward the public's right to know over his personal safety.

Edward Snowden is a former computer intelligence consultant and NSA contractor who, in 2013, leaked a massive trove of highly classified documents to journalists from *The Guardian*. Those disclosures revealed the existence of global mass surveillance programs, such as PRISM and Stellar Wind, (programs allowing for limitless collection of metadata from foreign and domestic citizens) operated by the NSA in cooperation with major telecommunications companies (Thompson, 2023).

Snowden fled to Hong Kong before the leaks were published and eventually sought asylum in Russia, where he remains in exile to avoid prosecution under the Espionage Act. Snowden stated in Greenwald, MacAskill, & Poitras, (2013) "I carefully evaluated every single document I disclosed to ensure that each was legitimately in the public interest [..] Harming people is not my goal, transparency is."

He purposely chose to give the documents to journalists whose judgment he trusted. While critics label him a traitor for harming national security, supporters hail him as a hero for exposing unconstitutional government overreach and sparking global interest on personal privacy.

In June 2013, the global landscape of national security and civil liberties was forever altered when *The Guardian* and *The Washington Post* began publishing a series of reports based on top-secret documents leaked by Snowden. These revelations detailed the scale of the National Security Agency's (NSA) mass surveillance programs, which captured all digital communications of millions of innocent citizens worldwide.

Snowden had access to a trove of classified information. He discovered the U.S. government, along with foreign intelligence agencies and major tech companies, was operating these surveillance programs. These programs allowed for the bulk collection of phone metadata and direct access to the servers of major internet companies, enabling the government to track the private lives of individuals without their knowledge or consent.

Snowden's whistleblowing event was a calculated, high-risk decision. He meticulously gathered thousands of documents that provided evidence of government overreach. Immediately after the story went public, Snowden chose to reveal his identity, stating that he did not want to live in a world

where “everything he said or did was recorded” (Greenwald, MacAskill, & Poitras, 2013).

The ramifications of Snowden’s disclosures had an immediate global impact. The U.S. and its allies faced legal challenges, with courts eventually ruling that certain surveillance programs were illegal. Companies like Google, Microsoft, and Facebook were forced to adopt stronger encryption controls to regain user trust. Citizens worldwide became significantly more aware of their digital privacy rights, leading to legislative reforms like the USA Freedom Act, which eliminated certain bulk data collection activities.

Snowden has faced extreme personal and professional consequences for his actions. The U.S. government charged him with theft of government property and two counts of violating the Espionage Act of 1917. To avoid a potential lifetime in prison, Snowden sought asylum and has lived in Russia since 2013, where he was granted permanent residency in 2020. While many see him as a hero who saved democracy from becoming a “surveillance state,” others view him as a traitor who compromised national security.

Edward Snowden’s legacy as a guardian of democracy is defined by his willingness to challenge the unchecked power of the state in the name of public interest. His actions remain a basis for debates on the ethics of whistleblowing and the necessity of transparency in a democratic society.

In summary, Ellsberg, Felt, and Snowden exemplify the critical role of whistleblowers in exposing government misconduct. Their actions have contributed to greater awareness of governmental abuse and have influenced policies related to transparency, national security, and the democratic process.

***Conclusion***

Whistleblowers serve as essential guardians of three fundamental pillars of modern society: free enterprise, capitalism, and democracy. Their role is pivotal in maintaining transparency, integrity, and accountability within these systems, which are often vulnerable to corruption, fraud, and abuse of power.

Within capitalist economies, whistleblowers uphold the principles of fair competition and protect the system from internal threats. By revealing corporate fraud, whistleblowers help sustain investor trust and uphold the rule of law, which are vital for the stability of capitalism. Their efforts ensure that profit-driven motives do not override ethical standards, thus preserving the long-term health of the economic system.

In the context of free enterprise, whistleblowers help protect market integrity by exposing fraudulent practices that distort competition and deceive stakeholders. Their disclosures prevent market distortions caused by illegal activities such as accounting fraud, insider trading, and manipulation. Such actions reinforce the importance of transparency and ethical conduct, ensuring that markets operate fairly and efficiently. Whistleblowers act as checks against corporate misconduct, fostering an environment where honest competition can thrive.

In democratic societies, whistleblowers protect the public interest by exposing government misconduct and abuse of power. These whistleblowers challenged government secrecy and promoted transparency, fostering informed citizenry and government accountability. Their actions, though risky, have led to significant policy reforms and increased awareness of civil liberties. By defending the right to know, whistleblowers strengthen democratic institutions and ensure that government actions remain subject to public scrutiny and legal oversight.

Overall, whistleblowers are vital in safeguarding the integrity of free enterprise, capitalism, and democracy. Their courageous disclosures help prevent systemic failures, promote ethical standards, and uphold the fundamental values of transparency and accountability, which are essential for societal stability and progress. The internal moral

reasoning structure of humans is a multifaceted system that integrates emotional, cognitive, social, and cultural factors. It is essential for understanding human behavior, ethical decision-making, and the development of moral character across different stages of life and cultural backgrounds.

When corporate cultures lack accountability and transparency, incentives are misaligned from employees, to executives, to owners, to shareholders, to community leaders, forcing honest people to make a difficult choice. Corporate America should see whistleblowing as a necessary mechanism in a democratic economic system with a cornerstone of free enterprise functioning in a robust model of capitalism.

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**Research Notes**

This article is part of our Letters series, featuring concise reflections from members of our academic community. “Compassionate Leadership in the Classroom: A Reflective Framework Rooted in Lived Experience” by Dr. Scott N. Warner argues that student performance cannot be understood without recognizing the often invisible challenges students face. Drawing on classroom experience and research, it presents compassion as a disciplined approach that maintains rigor while improving learning conditions. The article also introduces practical tools, such as a student “census card,” and positions compassionate leadership as essential for balancing accountability with awareness in higher education.

## Compassionate Leadership in the Classroom: A Reflective Framework Rooted in Lived Experience

*Scott N. Warner*

Compassionate leadership in the classroom is often discussed in theoretical terms, but for me it did not begin in theory. It began in lived experience. Two moments in the classroom reshaped how I understand student performance, trauma, and my responsibility as an educator. Those experiences forced me to confront a simple but uncomfortable truth: I do not know what my students are carrying. Drawing from research on empathy, compassion, and organizational leadership (Decety & Jackson, 2004; Dutton et al., 2014; Goetz et al., 2010; Santoianni, 2018), this reflection argues that compassion is not academic leniency but disciplined leadership. Compassion does not lower standards; it strengthens the relational and cognitive conditions necessary for learning, particularly when students are navigating life-altering events. This paper offers both scholarly grounding and practical strategies for integrating compassion into higher education while maintaining rigor and accountability.

### *The Moment I Realized I Didn’t Know*

My understanding of compassionate leadership did not originate in a journal article. It began in two moments I did not expect. The first occurred when a student asked if she could miss class on the first anniversary of the Oxford High School shooting in Michigan. She had been inside the building that day and had experienced the chaos firsthand. As she spoke, it became clear that the anniversary was not symbolic for her. It was real, overwhelming and chronic. The second moment came a few weeks later. I greeted a student I had previously known—someone who had always been bright, engaged, and consistently positive—and asked how her summer had been. Without warning, her composure dissolved. Through tears, she shared that her mother had died from cancer. In both moments, I experienced the same realization: I do not know what my students are carrying. They show up, they attempt to compartmentalize, and they try to perform, but the reality is that many are navigating life-altering events that would challenge even adults with fully developed coping mechanisms. These experiences forced me to question a long-held assumption: how can we expect consistent academic performance from students whose internal worlds may be in crisis? Those two moments became the foundation of my inquiry.

### *Trauma, Stress, and Performance*

What those moments revealed intuitively is strongly supported by educational and psychological research. Trauma and sustained stress have a measurable impact on attention, memory, and executive functioning (Eisenberg & Eggum, 2009). When emotional load increases, cognitive bandwidth decreases. A student who appears disengaged or distracted may, in reality, be managing a significant internal burden that is invisible to others. Empathy allows us to recognize the presence of that suffering (Decety & Jackson, 2004), but compassion requires something more. Compassion involves a willingness to respond in a way that is constructive and appropriate (Goetz et al., 2010). In organizational environments, compassionate leadership has been shown to increase trust, engagement, and performance outcomes (Dutton et al., 2014; Lilius et al., 2008). This distinction matters in the classroom. Compassion is not an erosion of

standards; it is a stabilizing force that enables students to engage more effectively under difficult circumstances. The challenge for faculty, then, is not whether compassion has value, but how it can be implemented without compromising rigor.

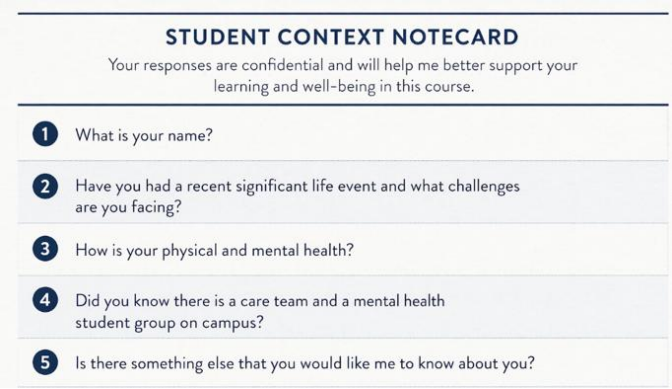
### *What Compassion Is—and Is Not*

Compassion in the classroom is often misunderstood, particularly in environments that prioritize performance and outcomes. It is sometimes assumed that compassion requires lowering expectations or removing accountability. In practice, the opposite is true. Compassion does not mean eliminating standards, granting unlimited flexibility, or avoiding difficult conversations. Rather, it is a disciplined awareness that allows an instructor to hold expectations steady while adjusting how those expectations are communicated and supported. When the student asked to miss class on the anniversary of a traumatic event, I did not abandon course requirements. Instead, I acknowledged the context and worked within a structured framework that preserved both accountability and humanity. Compassion, in this sense, operates as a dual commitment: the work matters, and the student matters. Maintaining both simultaneously requires intentionality, not leniency.

### *The Census Card: A Structural Expression of Compassion*

Following those early experiences, I recognized the need for a more proactive approach. Waiting for students to reach a point of visible struggle meant responding too late. I needed a mechanism to understand context earlier in the semester, before challenges escalated into academic failure. This led to the development of a student census card, distributed at the beginning of each course. Students are invited, but not required, to respond privately to a series of questions about recent life events, physical and mental health, awareness of campus resources, and any additional information they believe would be helpful for me to know. The purpose of the census card is not to gather detailed personal disclosures or to position faculty as counselors. Instead, it serves as a structured way to create awareness. It signals to students that their experiences are recognized, provides early insight into potential challenges, and, perhaps most importantly, shifts my own perspective as an instructor.

*Figure 1. The Census Card*




Each response reinforces the reality that every name on a roster represents a complex and ongoing life story. Compassion, in this context, becomes embedded in the structure of the classroom rather than relying solely on reactive, emotional responses.

### *Compassion as Leadership Modeling*

Students observe more than the content we deliver; they observe how we lead. They pay attention to how we respond to vulnerability, how we enforce expectations, and how we navigate moments of tension. In professional settings, compassionate leadership has been shown to strengthen relational trust and resilience (Dutton et al., 2014). The classroom operates in a similar way. When students perceive consistency, fairness, and dignity in how they are treated, they are more likely to engage with the material and with the learning process itself. Compassion, when applied effectively, reduces unnecessary friction without reducing intellectual challenge. In my experience, students do not perform worse under compassionate leadership. They often perform better, not because expectations have changed, but because the conditions for meeting those expectations have improved.

### *Living in the Tension*

There is an inherent tension in balancing compassion with academic rigor, and that tension is both necessary and appropriate. Faculty are responsible for maintaining learning outcomes, meeting accreditation standards, and ensuring fairness across all students. Compassion cannot become inconsistent or show favoritism. At the same time, ignoring the context in which students are operating is not neutrality; it is a form of blindness. Compassionate leadership exists in the space between rigidity and permissiveness. It requires discernment, clear boundaries, and a willingness to acknowledge uncertainty. It also requires accepting that we will never fully understand the full scope of what students carry into the classroom. The goal is not perfect knowledge, but informed awareness.

### *Conclusion*

The two moments that initiated this reflection—the anniversary of trauma and the loss of a parent—fundamentally changed how I understand academic performance. They revealed that excellence cannot be separated from context. Compassion in the classroom is not a retreat from standards; it is a more intentional way of supporting them. It is strength applied with awareness. In an educational environment where student complexity continues to increase, compassionate leadership is not optional. It is essential for creating conditions in which meaningful learning can occur.

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**Research Notes**

This article is part of our *Letters* series, featuring concise reflections from members of our academic community. “It’s Not Just a Matter of Cutting the Grass: Golf in Postwar America” by Dr. Dale Moler explores how wartime technology and scientific advances were adapted to everyday life in the United States after World War II. Drawing on historical examples from the golf industry, the article shows how innovations developed for military purposes were rapidly integrated into private enterprise, shaping both production and consumption. It argues that this transition illustrates the strength of market systems in reallocating resources from centralized wartime control to decentralized, individual use in a free society.

## “It’s Not Just a Matter of Cutting the Grass:” Golf in Postwar America

*Dale Moler*

In 1946, golf courses in the United States were introduced to a radically new type of lawnmower called the “Rough Grass Blitzer.” The name was not simply a marketing callback to the recently concluded war. The mower was based on a model designed by the Worthington Corporation to efficiently maintain grass airfields during the war. Across postwar America, groundskeepers waged their own war on long grass, weeds, insects, and troublesome golfers, equipped with the technology and science developed during the war.

An army of greenskeepers piloting militarized mowers in a war against crabgrass may seem silly. The application of wartime science and technology to the most recreational of postwar activities—golf—could be seen as a dreadful waste of hard-fought achievements and sacrifice. Indeed, party officials in the Soviet Union saw golf as a bourgeoisie sport that drained resources from centrally-planned projects, the ultimate sign of capitalist excess in liberal democracies like the United States. The Soviets didn’t build golf courses (Rothman).

However, a golf course superintendent’s decision to invest in a mower, or a power chainsaw, or new chemical fertilizers represents the heart of private enterprise. An individual golfer’s access to new materials developed during the war and then implemented into balls and clubs represents the very idea the war was fought over. The transition from war to peace, from mobilized to demobilized, was complicated. More importantly, that transition was fundamental to the war effort itself. The ability of individuals to pursue their own fortunes was the cause for which they fought; it was also what defined the postwar era.

But at the heights of conflict, national governments all over the world sacrificed individual liberty and private enterprise for the all-important goal of winning the war. This was obviously true in places like Nazi Germany and the Soviet Union, which were both totalitarian dictatorships before, during, and (at least in the Soviets’ case) after the war. But it was also true in liberal democracies across the West. Conscription forced millions of people into military service, and rationing forced everyone to forego their consumerism in favor of the war effort.

Science and technology was also appropriated for the war effort—by the middle of the war, industrial production was largely directed from above, technologists turned their attention to the devices most needed for military application, and scientists were enlisted to unlock new and terrifying methods for waging war. The Manhattan Project became the most widely known example of wartime science, but there are myriad examples of national governments

steering science in ways they deemed most appropriate.

Golfers did not incorporate nuclear technology into their golf clubs (yet). But, an exploration of the ready adoption of wartime materials by the golf industry shows how successful World War II was in the United States and other liberal democracies. That nationalized science and technology could be rapidly dispersed and freely adopted by individual producers and consumers shows the impact of the war as well as the commitment of those who fought to the free market.

Wartime materials, incorporated into a number of golf clubs and accessories, made their way into the bags of postwar golfers. Burke integrated face insets made of plexiglass, "the extremely rugged, transparent plastic developed during the war to replace glass in combat airplanes." The battle-tested material resisted becoming brittle and "is weatherproof, waterproof and will not chip, crack, or break" and produces "an extremely hard surface which adds new 'crispness' to shots." The "transparent plastic makes an inset of unusual beauty" ("Plexiglass in Burke Woods"). Like golf itself, Burke envisioned this new material improving what was already a solid reputation, saying the "heads and insets are harder, stronger, weatherproof and beautiful and are 'hairline' balanced in the Burke tradition" ("New Burke Plastic Heads"). Inserts such as these would prove especially important at a time when traditional materials relied on before the war were scarce. Wartime challenges in the logging industry stretched into the late 1940s, severely hampering the harvesting of persimmon trees for new woods. While laminated wood heads offered one solution, new plastic driver heads presented another option, although the cost of tooling such a head was deemed "terrific." As *Golfdom* put it, "because of [the] unusual situation, suitable substitutes must be found; as is often the case, a substitute may be found that will eventually replace the original" ("Golf Solves Problems of War's Aftermath").

Just as the clubs were undergoing rapid change, golf courses themselves were being reimagined in the light of this technological revolution. Willard G. Wilkinson was a golf architect whose work spanned multiple generations. He got his start working alongside AW Tillinghast, overseeing a "mule-and-scraper team" used to smooth the land and create contours. However, by the immediate postwar period, Wilkinson was adopting some of the new, more efficient, mechanized forms of construction. The Fall 1946 issue of *Golfdom* features an aerial view of Bellevue Country Club in Syracuse, New York on its cover. Here, Wilkinson was "building 3 new holes through heavy timber and rock and reconstructing 8 other holes of the course." The magazine notes that "adapting the Seabee's wartime construction methods" to golf course development produced "exceptionally fast work in clearing the woodland quarry in less than a month." Wilkinson himself commented that "the newest method does the course construction better and in one-third the time" of traditional mule-driven landscaping. Additionally, "despite great increases in wages the new machine method keeps costs in line with those prior to World War I ("Cover Picture Echoes Seabee Cosntruction").

Wartime machinery helped in the maintenance of courses as well. The Worthington Company released its "Rough-Grass Blitzer" unit in 1946s, "a modification of the Worthington Airfield 'Grass Blitzer' which was produced during the war period for the military requirements of the government and lend-lease" ("Worthington Mower

Plans Large Production"). Power chain saws, dramatically improved by "modern light-weight materials developed during the war," were "valuable time and labor savers" for golf courses downing trees. Demonstrations, such as the one made by the Clapper Company at Charles River Country Club for a gathering of New England Greenskeepers in the summer of 1946, helped spread the popularity of this technology ("Modern Way to Down Trees"). Some superintendents even worried that the machinery was getting *too* good, with one complaining that "if this trend continues, we'll just set all the mowers at fairway length and mow everything on the property from tee to green. He lamented that "the rough of a golf course used to be just as much a part of the design and architecture as anything on it" and that there are "plenty of courses where if you cut all the rough there's nothing to them, but if you let the rough grow they will give a national open field as much trouble as any layout." He concluded, somewhat sadly, that "we greenskeepers don't get much attention from golfers except when they want to kick about the course, but we've got as much to do with the sensational scoring today as the fellows out there breaking 70 almost every round" ("'Sissy' Trend Spoiling Golf").

Wartime developments also included new chemicals with a variety of uses, including ridding golfers of pesky annoyances like "mosquitoes and flies [that] usually interfere with the pleasure of golf." During the war, seeking a solution for tropical mosquito-borne illnesses, researchers at the Naval Medical Research Institute had developed a formula known as Repellant 448. Rebranded as d-Ter after the war, it was sold by the Chandler Chemical Corporation in New York. Advertised as "colorless, stainless, and relatively odorless," it "repels insects for as long as 36 hours in temperate climates" ("D'Ya Draw Flies?"). Similarly, golfers in the Upper Peninsula of Michigan "were protected from the black fly *Simulium Venustum* through the application of dusts containing 1% of DDT." Applied "at the rate of about 15 pounds per acre" and ensuring that "bushes and shrubs were also dusted liberally," the chemical treatment kept the property "practically free from flies for approximately a week" ("DDT Ends Player Bother"). By 1948, the Scotts company was publishing a handbook for homeowners and businessowners highlighting the "new chemicals [that] have been developed in the past few years to combat" pests effectively ("Pest Control"). In another handbook, Scotts celebrated "No More Hand Weeding!" as a result of the fact that "chemical control will definitely come of age this year—for practically all lawn weeds except crabgrass" ("Spring '46 Lawn Program"). The connection between wartime advancement and improved turf management was not lost on the public or manufacturers of these products. Scotts emphasized the technological revolution underway by comparing "new medicines like sulfa and penicillin [that] have revised methods of treating human ailments" with the fact that "weed control is likewise causing changes in the treatment of turf ailments" ("Good Lawns Made Easier").

No chemical advancement made as big of an impact on golf as 2, 4-Dichilorophenoxyacetic acid, more commonly called "2, 4-D." Developed during the war by multiple allied scientists, it would be widely applied as an herbicide across courses in the United States and Europe. While "golf clubs started to become conscious of fairway weeds and were turf-minded before the war," Golfdom notes that "interest has intensified by the publicity accorded the new hormone weed killer" and that "many clubs have started to do something about it." The chemical's "effect on dandelion, plantain, buckhorn, and chicory has been startling in many instances" and "early

summer spraying stopped clover bloom almost completely." The application also treated for "less troublesome" weeds including false dandelion, Queen Anne's lace, daisy, chickweed, heal-all, orange hawkweed, knotweed, and others (Noer, 23). The superintendent and green chairman of Glen Oak Country Club in Illinois agreed that "beyond doubt one of the most enthusiastically endorsed course maintenance results ever presented to our club's membership has been the successful outcome of our 2, 4-D application." The new chemical herbicide solved many problems, some unforeseen. "One point about this 2, 4-D job that especially appealed to us is that we now are not compelled to mow the rough so frequently to keep new crops of weeds coming all over our course…with the difficulty of getting labor and the high cost of labor we figure that it will be only a comparatively short time until the cost of the entire…application will be offset by the saving…" (Mass and Gerber, 62).

The war also broadened the scope of golf. Stalin had a point about the bourgeoise nature of golf—before the war, golf was dominated by private clubs with exclusive memberships. However, many Americans returned from the war having been introduced to the game during their service, and having had the opportunity to improve before they ever stepped on a course back home. Paul Runyan's dedication to the golfers at the Norfolk navy training station exemplifies this dramatically. Spending 10 or 11 hours a day on instruction, Runyan is estimated to have taught at least 7,000 different pupils every year he was in the Navy. Sailors, along with their wives and children, benefitted greatly from this opportunity, and many of them were inexperienced golfers prior to their visit to Norfolk. Some of the staff who worked for Runyan estimated that during the war, over half of the golf students had never held a club before starting with them ("Runyan Great Worker"). Not all of the newcomers were welcome additions to the course, especially if they hadn't had the tutelage of someone like Runyan. One superintendent declared that "there are a lot of new players in the game and they haven't much reverence for a course. They drag their feet and clubs across greens, climb the walls of traps. They don't realize the scientific knowledge required to keep a course in shape. It's not just a matter of cutting the grass" ('Sissy' Trend Spoiling Golf).

Interest in golf course design and maintenance business, responding to the increased demand for golf, saw a dramatic increase. Penn State pioneered a turf grass management program. As part of their "plan for veterans," Rutgers University's college of agriculture began offering a 10-week greenkeeping and turf management course in 1946. The course description echoes that of Penn State, with "lectures and laboratory work in How Plants Grow, Turf Weeks, Turf Grasses, Turf Management, Insect Pests, Plant Diseases, Landscape Maintenance and Horticultural Machinery, and lectures on Soils and Accounting." The *Golfdom* article covering this new course indicates the high demand in the face of postwar demobilization, not only for turf management courses but for university courses in general. It notes that "the college has no dormitories for short course students" and that "rooms in New Brunswick are not now easily available so students must find their own quarters and probably will have to commute." If they were willing to deal with this inconvenience, students would pay an out-of-state tuition fee of $25 and a registration fee of $5, and laundry and personal items were "at the student's expense" ("Rutgers Announces 10-Week Greenkeeping Course").

Beyond the machinery and training made possible by the Second World War, the broader

impact of the conflict—its deep physical and emotional trauma, the long shadow cast over future memories—shaped the way people thought about golf, not just the way they played it. In some locations, golf course design and construction became examples of "living memorials" to those who served in the war. In the aftermath of World War II, some thought that traditionally designed memorials—which included the shafts, doughboys, and sepulchral monuments built after the First World War—were not as appropriate in the modern age. These challenges, according to Andrew M. Shanken, "undermined a long-standing iconography and shifted the terms of memorial practice away from what might be thought of as a liturgically based set of rituals, drawing memorialization closer to leisure, recreation, and desire for cohesive community." Ideas ranged from community centers, memorial parks, playgrounds, gymnasiums, highways, scholarships, and "bookmobiles" (Shanken, 132). While some of these "living memorials" had been suggested after the First World War, there was a much stronger impetus for these types of projects after the Second World War.

Thus, several golf courses were newly built in honor of those who served in the war, and others were renamed for the same purpose. The Chamber of Commerce in Clear Lake, Iowa renamed their local 9-hole course All Veterans Golf Club in 1945 ("Veterans Memorial Golf Club"). In Washington, Veteran's Memorial Golf Course opened in 1948 as part of much larger Veterans Memorial Park, "Walla Walla's living memorial to the veterans of all war" ("Veterans Memorial Golf Course"). West Point got in on the memorial game, establishing its first golf course, built by Robert Trent Jones Sr. in 1948. Each hole features a granite tee marker commemorating a major U.S. war and honoring those who fought ("West Point Golf Course"). Some courses feature more specific memories. The Sandpiper Golf Club in Goleta California wasn't built until 1972 isn't dedicated to the war, but it does feature an unassuming stone marker near the ninth green that marks the site of a Japanese submarine attack on the oil field that used to occupy the property (Sandpiper History).

That Americans would dedicate a golf course to the memory of the largest conflict ever fought says something about the postwar world. Indeed, the ways in which golf courses, their designers and builders, their managers and members all appropriated wartime technology, science and ideas is exactly what demobilization and demilitarization was about. Was it disorganized? Yes. Was it centrally planned? No. But that's the point. As liberal democracies like the United States shifted out of their wartime status, they were forced to reckon with the massive powers that had been granted to their national governments during the war. The free market, which had shaped the course of science and technology before the war and had subsequently been subsumed beneath the overwhelming goal of winning the war, was now responsible for determining how those wartime advancements would be applied in the postwar world.

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