

Survival of the Richest

Social Darwinism and the Moral Economy

by Frank Dabbs

In 1848, an eccentric Victorian autodidact surrendered his tenure as a civil engineer in the British railway system to join the staff of *The Economist* magazine as a sub-editor. Over the next 55 years, until his death in 1903, Herbert Spencer authored a stream of books, essays and articles that established him as a leading iconoclast in English biology, philosophy and political journalism. He overcame poor health, an addiction to opium and an ill-disciplined, informal education to break ground as a pioneer in sociology and psychology and to develop fundamental principles and concepts of biological evolution several years ahead of Charles Darwin.

Spencer's landmark polemic, *Man Against the State*, which was published in 1884, reads like a Ralph Klein campaign brochure. It captures the sentiment and sense of Alberta's peculiar brand of social conservatism and corporate advocacy for a society in which business is minimally taxed, self-regulated, and otherwise unimpeded by the interventions of the state.

Spencer argued that the sole purpose of government was to protect individual liberty. He defined the common good only in terms of self-interest, rejecting the utility of interventionist economic management and protectionist trade. He also rejected social policy that took collective responsibility for education, working conditions, health or care for the industrial revolution's poor and dispossessed.

As a biologist, Spencer originated the phrase "survival of the fittest." As a political and economic thinker, he applied the notion to a society in which the weak and the

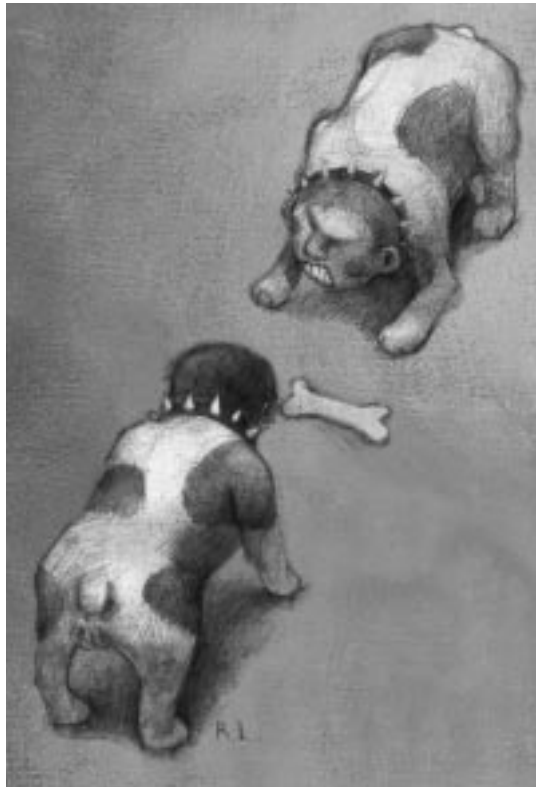
failed were morally unfit and therefore ought to be written off as acceptable collateral casualties of economic progress and growth. His political theory became known as social Darwinism.

As Britain's rigid class structure crumbled under the

economic and political forces that followed the war, and as the world drifted into a global depression, social Darwinism became the last redoubt of a generation of frightened aristocrats who refused to accept the disappearance of their privileged way of life. In North America, social Darwinism was used by the post-Civil War robber barons to justify their accumulation of wealth during America's Gilded Age—an age that witnessed some of that nation's gravest social injustices.

Spencer's name lay dormant until about 20 years ago when the neoconservative movement, looking to justify the rapaciousness of its anti-government code, appropriated his ideas and rewrote them in a contemporary idiom. The convergence of restored social Darwinism with fiscal conservatism produced a strong cultural ethic of self-interest.

SOCIAL DARWINISM PREVAILS in Alberta today. Our world view is woven together from the distinctive values of the corporations that drive our resource-based economy, a governing dynasty unchallenged in power for three decades, and rural social conservatives that hold the balance of voting power. Beneath this surface, which commands the public agenda and popular media, is a vigorous dissenting class composed of academics, public servants, trade and professional unions, intellectuals,



radical farmers, writers and students. However, their collective but secondary role as a social conscience is overwhelmed by the comfortable, conformist community in which opposition is synonymous with heresy and betrayal, and right thinking is attributed to society's rich and powerful, its winners. Social Darwinism, the unimpeded pursuit of self-interest, is considered not only desirable, but virtuous.

The so-called Klein revolution, with its deregulation of the marketplace, shows that our government believes in the virtue of unchecked self-interest. The province's more aggressive and dishonest entrepreneurs have taken this freedom from restrictions as moral permissiveness. One need look no further than the enforcement docket of the Alberta Securities Commission to recognize that Enron, WorldCom and Arthur Andersen don't hold any patent on corporate corruption.

In the 12 months from October 2001 to September 2002, the ASC—which administers the Alberta Securities Act, investigates violations and enforces its provisions—sanctioned six senior corporate executives in four major cases and negotiated settlements covering two other alleged breaches. The ASC also initiated criminal prosecutions that saw four men go to jail and a warrant issued for a fifth (who fled the jurisdiction). These cases mostly involved illegally selling securities—violations that amount to simply ignoring the law.

Currently, an ASC hearing is under way into allegations of misleading reporting of natural gas reserves by Blue Range Energy. This case has already led to a commission of inquiry and new, tighter regulations for reserves reporting. The ASC has also set a hearing for January into allegations of accounting misrepresentation, stock market manipulation, covert insider trading and payment of secret commissions by executives of Proprietary Industries.

Over the past year, the ASC also issued a stern compliance reminder on reporting requirements and insider trading for mergers and acquisitions, circulated major alerts to warn investors of scams (including on-line RRSP frauds), and initiated tougher regulations for corporate accounting and corporate governance.

Repeatedly, in public statements on these cases, ASC officials have remarked on the disregard for the law shown by many securities law violators. It seems the Bre-X gold scam of the 1990s, and the exposure of the company's executives, does not deter people bent on ripping off the market.

Still, Alberta's business elite are convinced of the inherent virtue of the unregulated pursuit of personal gain, and they were shaken—perhaps more so than any other Canadian community except within a stone's throw of Bay street—by the recent ethical failures at major North American energy, new-economy and accounting companies. Paul Boeda, founding partner in the Canadian Wealth Management Group, which gives personal financial advice to some of Alberta's most suc-

cessful people, asks whether we should be surprised at the staggering scale of these corporate scandals: "Is there now evidence that wealth without a soul turns to greed?" Boeda quotes a 1997 George Soros article in the *Atlantic Monthly* entitled "The Capitalist Threat," in which Soros says, "Our capitalist system is no longer threatened from the outside from some totalitarian ideology seeking supremacy—the threat comes from the inside by pursuing self-interest to the detriment of the common good."

The raw pursuit of self-interest led to unethical practices in Alberta's early years, too. In the Turner Valley oil rushes of 1914, 1924 and 1936, dubious stock promotions operating from storefronts along Calgary's down-

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town streets raked in the life savings of the credulous. A kind of vigilante securities enforcement system—in which lawyers such as future prime minister R. B. Bennett and his friend Senator Sir James Lougheed identified the swindlers and quietly had them run out of town—kept the lawlessness at bay. This "take care of our own" modus operandi prevailed right up to the post-Leduc oil boom of the 1950s. Oilman Bill Herron resigned noisily from Okalta Oils when he was asked by his Montreal-based controlling shareholders to falsify the results of an unsuccessful exploration well so that they could dump shares for a quick profit.

But Alberta also used to have a government that took an active role in regulating the self-interest of corporations and providing for those left behind. When one premier, John Brownlee, was hounded from office after being sued by a young woman's father for seducing his daughter, he was replaced by William Aberhart, the first Canadian leader to challenge the "do nothing" attitude of Canadian first ministers in the face of the Depression. Whereas Prime Minister R.B. Bennett told hungry Lethbridge farmers petitioning for drought relief that the role of government in the crisis was to protect the dollar, Aberhart proposed state medical insurance, jobs-for-welfare and bank regulation.

Aberhart's prescriptions for the economic suffering of his times came from his Christianity, a closeness of church and state that would be highly suspect today. But for all his mixing of religion and politics, Aberhart wanted the economy to thrive and believed that corporations and governments had ethical and fiduciary duties to citizens. He acknowledged that these duties would constrain absolute freedom and rights for companies.

Aberhart's successor, Ernest C. Manning, was a week-

end preacher, and weekdays he enforced government ethics in some detail, down to personally checking and approving cabinet ministers' expense accounts. Under Manning, Aberhart's ethic gained a blue chip maturity that promoted both corporate prosperity and regulatory probity. Among his achievements was the development of oil and gas regulation that gained a world reputation for being practical, even-handed, effective and thoroughly incorruptible. Alberta became known among the global multinational companies as the place where public officials couldn't be bribed.

Alberta's current government, by contrast, bows to the interests of business—either by keeping out of the companies' way or by throwing money at them—and shows a lack of concern for those left behind. Klein has deregulated electric power and natural gas marketing, taking care of business at the expense of consumers. He has

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demonized some members of the economy—notably teachers and medical workers—to make his trademark budget cuts more palatable, while bending his commitments to favour others. In 1993, just days after winning an election on the basis of his integrity and credibility, Klein gave Canadian Airlines International a \$50-million loan guarantee as part of a survival package, though he had promised that his government would stay out of business. (The package failed.) Subsequently, he refused to bend in spite of overwhelming indications that hospitals and schools needed the same kind of flexibility.

Does the Klein government want to move from its current social Darwinism to a more moral economic model? In its much-touted economic summits, the government looks beyond the usual tight circle of Conservative insiders, lobbyists and influence-seekers to the public for input. Whether this is effective depends on the government's willingness to solicit and utilize critical opinion, say from environmentalists at the Pembina Institute, academics at the Parkland Institute or scholars sponsored by the Sheldon M. Chumir Foundation for Ethics in Leadership. The skeptical view, however, is that such consultative processes are window dressing that by their very novelty affirm that the government remains under the influence of a small economic elite.

THE RECENT SHORTCOMINGS of the market economy recall the Wall Street scandals of the 1980s that produced the corporate social responsibility movement. Corporate social responsibility holds that companies have ethical duties to protect the environment, to care for workers' rights, to

invest in the community and to practise philanthropy.

This idea has met resistance from both the political left and right. Conservative economists, led by Milton Friedman, argue that the corporation's only duty is to maximize the shareholders' profits, and that philanthropic expenditures are morally wrong uses of shareholder assets. Social democrats argue that the proper way to finance education, health care and community social needs is collectively, through taxation. Allowing corporations to take over this role subjugates government responsibilities to the dictates of the corporatist agenda, widening the power of business at the expense of the democratic role of the electorate.

University of Calgary philosopher John Baker is one of the country's leading scholars of business ethics. He says companies like Enron, which was an award-winning corporate social responsibility business, thought their performance allowed them a "moral free zone" that licensed an unethical approach to their fiduciary obligations to securities regulators, shareholders and corporate directors. (Enron's operations in Alberta were characterized by a self-serving indifference to customers, regulators and other stakeholders.)

Since the ethical failures of Enron and its ilk, a movement called economic democracy has gained momentum as a potentially stronger control over corporate ethics than corporate social responsibility. Economic democracy is the empowerment of workers and other corporate stakeholders to participate in the management of corporate affairs. Trade unions represent one form of economic democracy. Proponents also advocate intrusive proposals for corporate governance, such as opening boards of directors to members selected by non-shareholders in order to establish direct accountability to external stakeholders.

Richard Haskayne, who has sat on the boards of 18 major companies and the University of Calgary over the past 27 years, says that business ethics begin with personal standards of good faith that forbid doing the "technically legal thing when it is not the morally or ethically right thing." He believes one way to nurture the moral economy is to teach emerging managers and executives to value their personal reputations above the quick advantage and the lucrative deal. In 2003, Alberta's corporate and regulatory agendas will be dominated by the question of how to rein in the excesses. Business leaders are wrestling with whether some behaviour is so egregious that, in Haskayne's words, "it seems beyond the reach of corporate governance," and must be externally regulated. Nevertheless, a moral economy can't be achieved by regulation alone; rather, as Paul Boeda asserts, "it must come from hearts and minds."

Alberta economic leaders reassure us that their corporations are already practising the business ethics that come from an internal moral imperative. Gwyn Morgan is CEO of EnCana Corporation, the biggest independent oil and natural gas company in North America. "An ethi-

cal economy is a subset of an ethical society,” he says. “I started as a farm kid with virtually nothing. I had my ethics and values set by my parents and my community. The fact that I now lead one of the largest companies in the country doesn’t impact these ingrained values. The high level of personal and economic freedom that people want depends on fundamental values of caring and giving.” In a moral climate where people judge leadership by what it does, not by what it says, EnCana’s employees’ actions will be judged by an ethical code that has strict rules about bribery, conflict of interest, confidentiality of corporate information, honouring intellectual property laws and refusing personal gifts from business contacts. “If it feels wrong, it probably is wrong,” a directive to EnCana employees states. This ethical commitment comes with a business risk. Setting oneself up as a “best in class” company, as EnCana does, invites a higher level of ethical scrutiny and an expectation that there will be a consistency between EnCana’s community work and its commercial practices.

James K. Gray, Canadian Hunter Exploration co-founder and former chairman, says his company sought to develop a strong moral platform with three legs: family, community and business. “We wanted everyone at Hunter to fulfill their promise, ambitions, potential as part of our job. It created the kind of company that others wanted to partner with, and it made us an employer of choice. We had the business disciplines of geology and finance and so on, but we tried to stay in balance.” Gray personally blazed a trail as a leading opponent of video lottery gambling terminals as a source of government revenues, arguing that the damage to gamblers and their families was morally unacceptable. He says the notion of personal moral commitment as the foundation of business ethics is connected to values that honour quality and balance in life, not a scoring system based just on quantitative achievement. “Unbalanced greed at all costs for wealth and money quickly was Enron’s undoing,” he says. And, in spite of Milton Friedman’s claim that community investments compromise the corporation’s obligation to maximize profits, “Canadian Hunter made a lot of profit for its shareholders. We didn’t see a trade-off or choice between profits, moral leadership, good ethics and



caring for the community.”

University of Alberta political economist Gordon Laxer argues that such corporate ethics will not overcome the prevailing “survival of the fittest” economic model. He believes social ownership of the economy, exemplified by the farm co-operative, credit unions and the grain marketing pools that emerged before the Depression, would lead to a more moral economy. “We need to create a civil commons of shared responsibilities that protects the environment, measures the future by all the legacies it will leave, and has as its ethical test how well it protects its weakest members.”

UNDERCURRENTS OF DOUBT and dissent are being felt in Alberta as thoughtful citizens reject social Darwinism. The inequities it fosters breed disorder. The disparity between the incomes of the richest and poorest is widening at an accelerating pace. The family farm is lost to the corporate farm, the small family business shrivels, and the independent Canadian energy producer is absorbed by the multinational.

The prevailing economic framework is at odds with the political and social values upon which a more successful Alberta was grounded—values learned in the human tragedy of the Great Depression and carried forward into public medical insurance, tough energy regulation and a rural co-operative movement, side by side with private investment. In the province’s second century, Albertans will measure growth and progress inadequately if they count only gross domestic product or the ups and downs of the TSE and ignore rates of homelessness, school dropouts or mental health.

The weak and the failed in Alberta society are not acceptable casualties in a winner-take-all economy. Social Darwinism has failed because it is inconsistent with democracy and a free moral economy, both of which are founded on the assumption that all citizens are in this together, that opportunity is community property, that wealth creation and social caring temper one another, promote one another and succeed together.

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Frank Dabbs is a veteran journalist and the author of biographies of Ralph Klein and Preston Manning.