

“Such a Tide as Moving Seems Asleep”: A Review of Seven Books that Attempt to Awaken It

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In the previous issue of the *JEI* (3, No. 1, 2012^{*}), Angelo Calvello, editor in chief, titled his comments: “Such a Tide as Moving Seems Asleep”; a line taken from Tennyson’s famous poem: “Crossing the Bar.” (Thanks, Google.) Dr. Calvello used the provocative image as a metaphor to make the point that the movement to environmental investing has been unexpectedly slow despite “robust environmental investment ideas and opportunities that offer to give return per unit of risk.” He goes on to say that there is not the political will to create the government policies necessary to encourage this kind of investment.

Every system—and environmental investing is certainly a part of a very large and complicated one—has various leverage points or fulcrums for change. Governmental policy is one such leverage point, and as Dr. Calvello suggests, you need the political will to support the crafting and passing of various government regulations. **However, the premise for this book-review essay is that *social will*—based on logic, norms, beliefs, concerns, and arguments—does and must precede and shape the political will.**

What more vivid example of this do you need than Governor Romney’s acceptance speech in Tampa when he mocked the 2008 acceptance speech of President Obama who promised to “slow the rise in the oceans and to heal the planet.” Romney went on to say that in contrast “my promise is to help you and your family.” (This got the loudest applause of the night.) Whatever your political persuasion, as a reader of this Journal, those comments had to strike you as to how big a gap in logic we have to bridge in order to drive political will. And your work as environmental investors can provide such a bridge.

Inspired by the structure of classical liberal arts curricula—the ancient *Trivium* and *Quadrivium*—I have chosen seven books published in 2012 that I thought might be of interest to the creative readers of the *JEI*: starting with specifics of building infrastructure and then moving to larger perspectives of finance, capitalism, philosophy, science and finishing with a broad survey book. The goal is not to summarize or critique them. Rather, the purpose is to search and see if we can hear any voices, themes, ideas, arguments, logic, or “memes” (as the semantic and rhetoric scholars call clustering of ideas in short phrases

* <http://thejei.com/index.php/IEI/article/view/144>

or words) that might indicate ways of awakening the “tide”: the consciousness/knowledge/logic/language connecting the environment with the economy, and the financial function. To conclude, and as a timely checkpoint, I will mention a book published in 2009—just after the 2008 U.S. election.

We begin with a book of immediate relevance: how to determine the needs for infrastructure.

Brett M. Frischmann—*Infrastructure: The Social Value of Shared Resources*

The author, an attorney specializing in IP and information law, immediately makes a valuable contribution with his choice of a starting point. Rather than addressing the problem of ensuring an adequate *supply* of infrastructure, he asks the basic, but often overlooked, blazingly obvious question from the *demand* side: “How do we determine what infrastructure resources the market really needs?” He begins with a cogent explanation about infrastructure resources as *commons* and ways of managing infrastructure, which to many *JEI* readers will be a useful review of familiar ground. He then looks at the infrastructure of four sectors: transportation, communication and telecommunications, the natural environment, and intellectual property. It is a technical book full of useful perspectives and ideas, particularly from a legal standpoint.

I found the way he treated the larger issues in context of the commons to be very encouraging. But as he got into detail on the marginal cost controversy concerning trade-offs (for example, Coase et al., as to whether there should be regulation or not), I found that his perspective narrowed, . . . which is exactly the opposite of what many of us think we need to drive social will. For example, he talks about these big issues with sentences like this: “I have reservations about over reliance on ecosystem valuation as a tool to guide regulatory policy.”

OK, so don’t we all, but we need to address it and wrestle with it.

Another example of his perspective narrowing is where he is questioning policy on transportation infrastructure, again ducking the big issue by carefully/lawyerly saying: “The social cost of environmental pollution and other environmental impacts from road infrastructure must be taken into account and may suggest that there are decreasing returns at certain levels of infrastructure use in certain contexts. Whether the environmental costs of road transport tip the scales and render alternative modes of transport more attractive from a social welfare perspective is an important issue, one that I do not attempt to resolve here.”

And when referencing the intersections of various versions of intergenerational ethics in fairness to future generations, he summarily says: “I leave exploration of such approaches for another day.”

No, no, maybe you don’t want to explore them today, but these are exactly the critical, bigger questions that must be addressed . . . today.

So, to find help in broadening the context to give perspective vital to making investment decisions, we now move to the view of the financial industry and its role in shaping social norms.

Robert J. Shiller—*Finance and the Good Society*

What a promising title: Shiller is coming to the defense of the financial industry after the 2008 financial crisis. His basic premise is not to be an apologist for the sins of finance, but to argue that we really need to reclaim and expand finance for the common good. His credentials are impressive: he predicted the stock market bubble of 2000 and the decades-long run-up to the 2008 real estate bubble. In his three-decades career of teaching finance at Yale—many of his courses are available online—he has come to believe passionately in the power of economics and what he calls financial capitalism, meaning that we need more finance, not less.

Part One of the book is devoted to succinctly outlining the “Roles and Responsibilities” of the players in the financial crisis—18 characters/chapters in all. Part Two, entitled “Finance and Its Discontent,” is where he looks at various aspects of the performance of these characters, ideas, and dilemmas that drive financial crises. Then in his brilliant and rousing concluding chapters, we find out what he has been really driving at: the *democratization* and *humanization* of finance.

Just what is the power of finance for the “Good Society”? Well, for starters, how about its role in fostering peace. Shiller recalls a theory presented in 1910: “It is an illusion that military conquest brings economic advantage.” People at the time ridiculed the idea—war was a part of human nature . . . and this was just before World War I. (The author of the theory, Norman Angell, later won the Nobel Peace Prize.) As a simple support for Angell’s premise, Shiller mentions a study done recently on the incidence of war that shows an inverse relationship between the level of financial interconnectedness, namely capital flow between countries, and the likelihood that those countries will go to war.

Shiller concludes that financial capitalism could/must play the same role in the crises facing us today. While he doesn’t specifically address the environmental crisis, he ends

with a uplifting thought for the fundamental need to *humanize* finance, citing for support such contemporary ideas of how the human mind works as indicated by the rise of behavioral economics and neural economics—the subject we will turn to in Wilson’s book. Shiller then calls on no less an authority than Adam Smith and his precise rendering of *praiseworthiness* as the ultimate motive for humanizing financial and economic behavior: “Adjusting our own character and conduct according to those measures and rules by which esteem and approbation are naturally bestowed.” In other words, it is not how I feel about myself, but how others see and evaluate me.

This seemingly soft/qualitative distinction gets reinforcement and elaboration from an unlikely source, the author of our next book, who is a noted finance professor at the University of Chicago’s Booth School of Business—a place not known for its soft/qualitative reasoning.

Luigi Zingales—*A Capitalism for the People: Recapturing the Lost Genius of American Prosperity*

From the title, it might sound like a socialist-leaning treatise; it is actually quite the opposite. Zingales signals right at the beginning that he will base his view of American economics and finance on his personal story and experience. He came to this country as a graduate student to get away from the cronyism and nepotism that he saw rampant in Italy. But what he has seen and observed in his now decades-long involvement at the University of Chicago and while studying financial markets and governance is that we are in danger of losing this great foundation of markets, which is freedom.

The manifestation of freedom that makes markets run is, in his mind, competition. He credits Adam Smith with the great insight that the wealth of nations comes from competition. But he also rightly comments that Smith believed in moral sentiments and the power of virtue in driving and providing the context of this competition—for the approval of their virtue. Here he picks up, with great effect and telling detail, Shiller’s theme of the need for praiseworthiness, but from the point of view of tolerating bad behavior and resurrecting the ancient idea of shame for that behavior.

The book’s essence is captured in the title of chapter 3, “Crony Capitalism American-style,” as exemplified by lobbyists and big business. While in many chapters Zingales covers topics that will not be of direct interest to those concerned with markets for financial instruments in the environmental space, he adds to the argument that I have attempted to outline in these reviews: that we need to have a change in what he calls the “importance of social norms” in addition to official rules. These social norms need to be

shaped and based on, rigorous analysis and the data, which are roles for academic economists as well as all readers of the *JEI*.

Zingales's work is about dispersing power and access to capitalism to many people. But to further support that perspective, we will take a brief look at what happens when we take the opposite tack and give more power to big government and bureaucracies.

Alan H. Meltzer—*Why Capitalism?*

If you want a realpolitik view of the world, Meltzer's your guy. You know right away that you are in for quite a ride when, in the introduction, he acknowledges the range of his influences, from Immanuel Kant (for example, human nature as "crooked timber") to Karl Popper to Friedrich Hayek, and to Milton Friedman, among others. He takes you back in time and sketches from a broad perspective the old battle of capitalism versus communism and socialism, and extols the genius of the freedom of capitalism. Calling on Kant, he recognizes the imperfections of human nature, which must be allowed to work themselves out in a competitive marketplace, rather than appealing to utopian visions. He makes the case that social justice can be achieved not by severely regulating capitalism, but by having it work itself out in the marketplace, and with citizens able to judge the results and make changes accordingly.

For those interested in recounting the perils of government regulation and failed attempts at income distribution, it's a treasure, especially in the last chapter. There, the author describes the role of the Federal Reserve, particularly in moderating inflation, Meltzer's specialty.

Having set out the problems of large institutions attempting to control our flawed nature, we leave the perspectives of finance and turn to three books in the liberal arts and sciences traditions—first to philosophy—for comments about the local community as ways to harness our individualist motives.

Roger Scruton—*How to Think Seriously About the Planet: The Case for an Environmental Conservatism*

While Scruton and Meltzer share a profound distrust of big government and business, Scruton looks for solutions in the opposite direction. He focuses on the power and interests of small communities gathered together to care for their local environment—what he creatively calls "oikophilia." To get to this more humanistic framing of the environmental problem, he states halfway through the book: "More simply put, environmental problems are problems of morality, not economics."

Specifically, he states that we are not governed strictly by cost/benefit analysis. Yet even when this quantitative perspective shapes our reflection, we take into account the costs/benefits to others. In moral reasoning, we are looking deeply into the sources of human motivation and at the things that cannot be traded. Yes, we are capable of rational sacrifices.

He identifies the many ways—using projects in his UK homeland as his evidence—in which local groups of ordinary citizens, often with limited power, spontaneously apply social pressures and effect environmental changes in order to maintain a sustainable equilibrium. Following Meltzer, he shows how state initiatives in the form of subsidies and regulations often destroy what they aim to protect, because they hinder the major advantage of markets to provide feedback: a homeostatic system that adjusts in response to negative feedback when things go wrong.

While there is much more in his elegantly constructed argument of linking conservative thought with concern for the environment, we will conclude with his comments about evolutionary psychology, following the familiar model/dilemma of instinct versus reason driving behavior. He comes down on the side of reason: the sources and purpose of such sentiments as “guilt, shame, the love of beauty, and the sense of justice which arise from reason itself, and reflect the web of interpersonal relations and understandings through which we situate ourselves as free subjects, in a community of others like ourselves.”

This line of reasoning leads to Scruton’s deciding factor “full of persuasive force...*oikophilia*, the love of home, a motive that comprehends all our deepest attachments, and which spills out in the moral, aesthetic and spiritual emotions that transfigure our world, creating in the midst of our emergencies as shelter that future generations also may enjoy.”

We would expect Scruton, as a philosopher examining evolutionary psychology, to favor reason over instinctive motives. Before we examine the competing field of instinctive motives, we will take another look at rational motives driving our behavior, particularly in economics, and addressing a fundamental question: Do markets encourage a sense of justice and concern as Scruton, Meltzer and Zingales suggest? That is the question the distinguished Harvard professor and scholar of justice Michael Sandel asks.

Michael Sandel—*What Money Can’t Buy: The Moral Limits of Markets*

At some point in your career, as a reader of the *JEI*, you obviously saw that developing financial instruments for investing in environmental projects was a great idea. Clearly, you were attempting to harness the strength of capitalism as a way of providing financial

motivation to protect the environment. What could be more indicative of American economic logic than that? Michael Sandel—author of the only book reviewed here to be a finalist for the Financial Times and Goldman Sachs Business Book of the Year Award—asks you to stop and reconsider: By commoditizing something valuable, such as nature, are you diminishing and crowding out higher motives for action, such as civic pride and concern for the common good?

Before you quickly say, “that’s exactly the reason why I’m doing what I do,” consider some of his examples, such as in sports. He follows the trajectory and amount of money that has poured into baseball over the decades as the huge stadium-branding and skybox mentality, which he contends diminishes the community spirit of the game. And what about paying children to get good grades? Or closer to home for our purposes, what about cap and trade schemes? He cleverly compares these to bribes and indulgences, used to pay for the sins we shouldn’t have committed in the first place.

But how can we help to broaden the perspective from a narrow focus on maximizing returns to shareholders alone (so-called “agency theory”) and connect financial capitalism to the larger sense of the common good? Difficult? Impossible? Does it go against human nature—the familiar economic rationalist? An unlikely source of hope comes from evolutionary biology.

E.O. Wilson—*The Social Conquest of Earth*

Why would we be interested in evolutionary theory? Well, if there ever was an example of a “tide” of thought always awake and on the move, we can do no better than to look at the ways in which science develops. We have witnessed, especially since the Enlightenment, the familiar pattern of a theory emerging from data, but then more data come to help form new theories, often triggering a revolution of thought. (Think of the revolution the theory of evolution caused.)

Our focus on the theory of social norms often rests on and is reduced to the familiar *Homo Economicus*—the rational optimizer who translates all transactions into what is in his or her immediate best self-interest. Support is often drawn for this characterization from the evidence of evolution. Isn’t that how we survived the jungles of nature, red in tooth and claw? Get the government out of the way and let the struggle in the market determine winners and losers. Any evidence of altruism, as Romney indicated, extends to us and our families. In evolutionary terms, it is called the “kin theory,” or “we take care of our own.”

Wilson himself for many years subscribed to this theory of kinship selection as the key dynamical force in human evolution. But growing evidence changed his mind to show a

much more complex process. (By the way, he has taken quite a hammering from fellow scientists—tides in science are often hard to “awaken.”) And he got his answer from studying Hymenoptera—the class of insects, including ants, wasps, and bees. To oversimplify, scientists observed that insects have both individual survival instincts as well as instincts that the entire tribe needs to survive, and he called this *eusociality*. We might say this is the ability of individual members of a species—*Homo sapiens*—to hold *both* themselves and their families *and* the planet and oceans in mind.

Even more surprising, scientists have determined that while any member of a colony of Hymenoptera have all the genes to fill any role from Queen to worker, they brought out only those that were necessary to fulfill their particular role. These genes are called *epigenes*. If we are looking for a biological explanation of our behavior, this is a useful model—we activate or suppress different motivations, pending the context and the need. Wilson outlines strategies in the scheme of complex, closely calibrated motivations: “altruism, cooperation, competition, dominance, reciprocity, defection, and deceit.” For instance, are you, readers of the *JEI* really the good guys and the saviors of the crashing environment and the solvers of the environmental problems all around us, or are you just the latest pillagers and plunderers of society looking to make a buck? Or both?

Applying the theory of epigenes and eusociality, we are wired to behave in all these ways, but, unlike the Hymenoptera, we can choose! While you don’t have to believe that *nature* drives us all, it is good to know that biological evolution does support altruism. So the function of *nurture* has something profound to build on.

This altruistic division of labor was a major innovation in the history of life and is quite rare. We seem to be the only vertebrates who exhibit it. Even our close relatives, like the Neanderthals with their larger brain capacity, give no evidence of having it, which could explain, Wilson believes, why we puny species survived against overwhelming odds. So you, *JEI* readers, might just think of yourselves as the next step in evolution to connect individual self-serving motives with serving the common good. You can be the educators who show how to bridge Romney’s dualism by connecting concern for the environment and concern for the individual and family.

Conclusion

As I warned in the introduction, this has been a winding journey through a broad landscape of seven thoughtful books published in 2012, with the purpose of looking for hopeful signs of language and arguments to help us awaken the tide of social opinion to drive political will and action. What did you find? What arguments, logic, ideas or themes

struck you, challenge your beliefs and help you think anew. How might you put your new ideas and strategies into action?

The readers of the *JEI* have a unique responsibility and opportunity to craft the investment stories as part of the larger story to help us all think like socially and environmentally aware financial capitalists, always realizing as we make our investment decisions that: “the economy is a wholly-owned subsidiary of the environment, not the other way around.” (Senator Gaylord Nelson, Democrat from Wisconsin)

It looks like it is going to be a long struggle. To give you pause for thought on the movement of the tide and to serve as a benchmark just after the 2012 election, in a noteworthy book published in 2009 as advice for President-elect Obama—*Down to the Wire: Confronting Climate Collapse*—David Orr compares the movement to embrace the environmental cause as similar to the long and torturous path to end slavery. And just as Americans finally faced the moral principle that slavery was wrong, he sees evidence today that the great turning in human attitudes and behavior has begun. And with the re-election of President Obama, Orr’s advice still holds.

The time and scope perspective referred to by Orr gives more urgency and hope to Dr. Calvello’s concluding sentence in his essay: “We continue to swim on, buoyed by the work and action of a dedicated, thoughtful group and hopeful that the tide will soon turn.”

It is to feed that spirit of creativity and courage that these book reviews are offered.

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