THE BROOKINGS INSTITUTION

DOES THE FREE MARKET CORRODE MORAL CHARACTER?

Washington, D.C.

Thursday, February 5, 2009

INTRODUCTION

Gary Rosen
Chief External Affairs Officer
John Templeton Foundation

MODERATOR

E.J. Dionne
Senior Fellow, The Brookings Institution

PANELISTS

Rebecca Blank
Senior Fellow, The Brookings Institution

William Galston
Senior Fellow, The Brookings Institution

William McGurn
Vice President, News Corporation

P R O C E E D I N G S

MR. ROSEN: -- Officer of the John Templeton Foundation. We're delighted to be here today at Brookings as guests and co-sponsors of this event. I should from the start thank E.J. Dionne and Bill Galston for their hospitality and for letting us work with their excellent staff. Dominique is back there somewhere in the Governance Studies Program.

We knew that E.J. and Bill would be perfect interlocutors for a discussion like this. They understand that governance, even in the heady atmosphere of Obama's Washington, is not just a matter of presidential tone and temperament, or even of the interplay of parties and interests, it depends crucially on ideas and fundamental principals, and that's what brings us here today.

The question we've posed for our discussion, does the free market corrode moral character, may seem like an unusual subject for the Templeton Foundation. Most people know us because of our efforts to bring some calm and reason to the dialogue between science and religion, which too often turns into a shouting match. Some may also know of our grant making activity in fields like cosmology, theoretical physics, cognitive science, and evolutionary biology. We'll be doing a range of programs, by the way, this year, I should add, in celebration of the great Darwin anniversary. But none of this is why we are here this afternoon.

We are here instead to explore a different part of the Templeton Foundation’s mandate. The late Sir John Templeton, whose long, remarkable life came to an end this past summer, was, of course, an astonishing success on Wall Street, but he saw the free market as far more than an engine of material progress, he considered it a teacher of ethics of core human values. As he wrote about entrepreneurship, through risk and challenge we grow, both in worldly wisdom and in spiritual strength.

The Foundation that Sir John established shares this view. But we also know that modern economies are enormously complicated things, and that their far-reaching moral effects are hardly always benign. If the free market is to be defended, its failings and vulnerabilities must be recognized and candidly discussed.

Our particular interest, especially at this time of financial crisis and self-doubt, is the relationship between market economics and moral character in the broadest sense. In what way does the market build or undermine certain qualifies of character, including our concern for others? The booklet you hold in your hands, or that I hope you hold in your hands and got on the way in, with essays by a range of distinguished intellectuals and public figures, is part of our effort to answer this big question, and so, too, is our discussion here today.

To guide us through these difficult matters, we are very fortunate to have E.J. Dionne. E.J.'s many accomplishments in covering, analyzing, and commenting on politics and public policy over the past several decades are difficult to summarize.

He has reported for the *New York Times* from Paris, Rome, and Beirut, to say nothing of Brooklyn and Albany. He has opined in the pages of the *Washington Post* since 1993. His articles have appeared in all the right magazines. He has made countless sage observations on NPR. And he has written or edited many, many books.

What ties all of this together is a passion for the big questions of American public life, justice and liberty, community and faith, citizenship, and service. E.J. is a proud and assertive progressive, but more than that, he is a discerning student of the American creed, in all its splendid, contradictory messiness. Today, he might even be able to help us make some sense of the troubled morals of our troubled markets. E.J. Dionne.

MR. DIONNE: Now, that was very generous and warm, and I thank you very, very much. It's an old line that I heard a long time ago, it was a lot nicer, the introduction I got the other day when I was out of town that ended, and now for the latest dope from Washington, here's E.J. Dionne. So, Gary, thank you so much for that.

I couldn't – it is actually a product of very careful planning among Gary, Bill, and me that we are holding this in the middle of an economic breakdown, the very day after President Obama has raised questions about the rewards within our capitalist system.

I could say that we saw all of this coming when we planned for this event, but as Richard Nixon would say, that would be wrong. And yet, it is quite clear that this topic we are addressing is deeply relevant.

I want to salute Templeton for its work in this area and thank Gary and Kimon Sergeant, an old friend who now works with Templeton. And I really do want to commend this volume to you if you haven't picked it up, because these are quite extraordinary essays. I have always been a skeptic of the form called advertorials, you may have heard of those, and yet the Templeton folks are the first people I think who make this work. And you may have seen some of their ads for this discussion in a number of learned magazines. Because the beauty of this discussion is not that they take this from the two sides, but they take this from many sides, and the authors they've picked represent a lot of very interesting perspectives, they come from quite different places.

For what it's worth, my own views are probably closest to John Gray's, Michael Walzer's, and Robert Rice's, but I found all of these essays very enriching. And so it's very good to kick off further conversation, this is I guess the second in a series of conversations, there was one in London, but we couldn't persuade them to fly us all to London for this particular discussion today.

I also am happy to be here from Governance Studies, where – the section of Brookings where Bill and I work. Governance Studies is popularly associated with all kinds of practical reform proposals, but – and here I borrow from Bill's ideas, and a lot of the discussion of public policy inside the Beltway – economic or technical or administrative terms, and what disappears in such conversations are the moral and religious premises on which competing policy approaches rest. Behind those specific policy proposals lie larger assumptions about the way the world works and ought to work. And so we would like to think that this discussion we're having today is an ongoing part of our effort to explore not just policy and economics and numbers, but also these moral underpinnings of the conversation.

The last thing I want to say before I turn it over to the panelists, I take particular joy out of what Templeton is doing, because five years ago now, in cooperation with the Pew Forum on Religion and Public Life, we were editing a series of books called the Pew Forum Dialogues on Religion and Public Life that were published by Brookings, and the second volume in that series was called *Is The Market Moral*, and it was a dialogue between Becky Blank and Bill McGurn.

It's a really wonderful discussion of the market and its discontents and its contributions and its problems. I'm told they are for sale in the book store, but I'm not really here to sell the book, although I wouldn't mind if you bought it, but simply to say that I think Becky and Bill really have been grappling with these questions for a long time, as has the other Bill on our panel. I want to – I will just introduce our three panelists, and then I will pose the Templeton question, as we are now calling it; maybe through hundreds of years from now they will still be calling it the Templeton question, or maybe the Rosen question.

Becky Blank is the Robert S. Kerr Senior Fellow here at the Brookings Institution. Prior to coming to Brookings, she was Dean of the Gerald R. Ford School of Public Policy at the University of Michigan. She was co-Director of the National Poverty Center.

She served as a member of the President's Council of Economic Advisors from 1997 to 1999, that would be, as I'm sure people in this audience know from those dates, under President Clinton. She has been a Professor of Economics at Northwestern, Director of the Northwestern University of Chicago Joint Center for Poverty Research.

Her 1997 book, *It Takes a Nation: a New Agenda for Fighting Poverty*, won the Robert A. Lester Prize for the outstanding book, *Labor Economics and Industrial Relations*. Her most recent work includes *The New World of Welfare*, *Is the Market Moral*, *Working and the Poor*, and *Insufficient Funds, Savings, Assets, Credit, and Banking Among Low Income Families*. She also – this is not on her formal bio, but I happen to know that she was also a central figure in writing what you might call the Economic Program for the United Church of Christ, a very important economic statement that they put out some years ago.

Bill Galston is the Ezra K Zilkha Chair in Governance Studies and a Senior Fellow here at Brookings. He joined Brookings on January 1, 2006. Before that, he was – Professor and Dean at the School of Public Policy at the University of Maryland. Actually, Bill did everything at the University of Maryland except run the basketball team, as far as I could tell, and maybe he had a secret role there in the successful seasons.

He deals with just about every subject imaginable. His specialties are political philosophy and political institutions, but he's not a bad political strategist either.

He is now working on several projects pertaining to the core questions of American public philosophy. Among these are how to ensure equity between generations in an aging society, how to advance policies that are in the nation's long term interest in a political environment bias toward short term gains. He has done a lot of work here at Brookings on our project on Political Polarization, co-edited a book on that subject. He served as a Sergeant in the U.S. Marine Corp, then received his PhD at the University of Chicago. He taught at the University of Texas for many years. He was at the University of Maryland. He's worked on a number of political campaigns, including some successful ones.

He also was the Assistant Director of Domestic Policy for President Clinton. He is the author of eight books and more than 100 articles. His most recent books is *Public Matters, Politics, Policy, and Religion in the 21st Century*. He's also co-author of *Democracy at Risk, How Political Choices Undermine Citizen Participation and What We Can Do About It*.

Bill McGurn is a Vice President at News Corporation. He writes speeches for its CEO, Rupert Murdock, as you know. He previously served as Chief Speech Writer for President George W. Bush. He has served as Chief Editorial Writer for the *Wall Street Journal*. He spent more than a decade overseas for the *Journal* in Brussels and in Hong Kong, with both the Asian *Wall Street Journal* and the Far Eastern *Economic Review*. In the mid '90's, he was the Washington Bureau Chief for the *National Review*. He is author of a book on Hong Kong, *Perfidious Albion*, *A Monograph on Terrorism: Terrorists, or Freedom Fighter*. He is a member of the Council on Foreign Relations, holds a Bachelors in Philosophy from Notre Dam, a Masters from Boston University. This is a great group.

And so I guess we will just go down the panel, Bill, Becky, Bill, does the free market corrode moral character?

MR. GALSTON: Well, let me begin with a joke that's so old that I hope that the young people in the audience haven't heard it and the older people have forgotten it.

A couple of Russians were meeting during the Stalin Era, old friends, they could trust each other, and you know, during the course of a desultory afternoon conversation, one of them asked the other, you know, comrade, can you explain to me what is the difference between capitalism and communism, and his friend says, my friend, many questions are complicated, that one is simple, let explain. Capitalism is the oppression of man by man; communism is just the reverse.

Now, that is a cynical joke, and I want to endorse it, in part. Let me begin with my descent, which will give you a clue as to what I think about the topic. In my view, the market is to economics as democracy is to politics; the worst arrangement except for all the rest. And we, therefore, have no choice but to accept its flaws, including some of its flawed consequences, and do what we can to ameliorate, if not correct them.

But there is a sense in which the cynical joke contains a truth, and the truth is this, you don't have to be a Christian, you don't even have to be religious to believe that a tendency towards vice is inherent in the human condition; it is not produced by external influences; it may be reinforced, in some respects; it may be muted, in some respects, but there is an aspect of our species' being that moves us in that direction.

And different sets of institutions permit or encourage certain kinds of behavior while discouraging others. And I agree with John Gray and other contributors to the volume that none of them sort of solidly promotes all of the virtues and discourages all of the vices, and that goes for markets.

This is a long sort of – this is a long story in the intellectual history of the past three or four centuries, because social theorists understood from the start that to choose a commercial society as opposed to a landed aristocracy meant to opt for virtues such as peaceableness and tolerance, but it also meant the liberation of acquisitiveness, aka greed, and the debasement of taste. Landed aristocracies tend to promote a certain kind of integrity and refinement, but also pride and violence.

And so the option for a market oriented society is a choice against aristocratic pride and the sort of physical combativeness and violence that all too often attends that kind of pride in the name of peace and tolerance, but with the vices or the tendencies toward vice associated with institutions that value and reward peace and tolerance.

Similarly, and I'm winding my way towards my conclusion, you know, a commercial society, especially ours, tends to reward virtues of sort of restlessness and innovation, but it's very hard to combine those virtues with the virtues of stable communities and settled patterns of behavior. This has been a standard trope of sociologists since Durkheim and political economists since Adam Smith.

Those virtues, the virtues of, I will say risk taking, can become excessive, excessive to the point of becoming self-undermining, as we've seen up close and recently, if you want an Aristotelian formulation. Risk taking is the mean between timidity and recklessness, and unfortunately, our institutions tend to promote a movement towards recklessness and risk taking, which is only counteracted by catastrophes induced by excessive risk taking, which is to say that a market represents what I'll call a moral division of labor, and the idea is that self-interest is permitted within a structure of rules that is supposed to check, channel, and guide self-interest.

When markets go astray, it is because we have not attended to the rules that structure the market so as to ameliorate its most characteristic defects. And in my judgment, that is the circumstance in which we now find ourselves, and what that means is that for quite some time now, the virtues, not of risk taking, but of recklessness, have been rewarded generously, and now we have to think about institutional arrangements that will rebalance our institutions.

MR. DIONNE: Thank you. Becky.

MS. BLANK: So I'm an economist sitting here between two philosophy majors. And, you know, it's not like we're asking an economist to do moral philosophy is probably as bad an idea as asking a philosopher to solve the current economic problems, but they have asked me, nonetheless, to speak. So does the market corrode character? I mean it is clear the market produces characters, whether you're talking about Bernie Madoff or whether you're talking about Warren Buffet.

But the market itself is a system, it is the way in which we particularly organize our economy, you know, it's a system that is used to buy and sell the goods that we characterize as commodities. And there is nothing in that system that is inherently moral or immoral. The question is how that system is put to use and what one brings to it. And I must say, without any collaboration whatsoever with Bill, I'm going to say some things that are somewhat similar to what he said.

So the market is an incredibly flexible system, it's one reason why it has been so powerful and has been so useful to democratic systems and to developing countries. But at the end of the day, people bring certain attributes to the market, and the market rewards those attributes, and some of those are good attributed and some of those are things that, on a scale of moral character, we might judge as less good. So there are those people who work hard, there are those people with entrepreneurial abilities and lots of creative ideas, there are people with respect for others, there are people who care about environmental degradation, and those individuals can bring that to the market, and many of them will be quite successful in the market carrying out those, you know, working in the market with those sets of characteristics and preferences and behaviors, and the market will reward them, okay.

There are other individuals who are more greedy, acquisitive, to use Bill's term, who think making a lot of money as fast as possible is their goal in life. There are those who lack respect for others, there are those who are willing to lie for the sake of personal gain. And again, there are places in the market where those individuals will, indeed, be able to be quite successful and will find themselves able to fulfill their goals.

And it is the very flexibility of the market that allows people, in some sense, to get back what they bring to it. I mean it is a system that reflects who the institutions and the people are that bring into it. So the question is really not does the market erode character or not, the question is, what do you do if you care about certain moral principals to make sure that those are the principals that are most recognized and most rewarded inside the market, okay. And I think there's two answers to that, you know, among many others, but at least two. One is that you want to establish a civic society that encourages those principals in individuals.

So you establish a set of social norms that say entrepreneurial ability, and hard work, and respect for others, and telling the truth are good things, and they are to be rewarded, and you are expected to do that, and, indeed, there is some shaming involved if you do not, and, you know, whether that is something that you learned in Sunday School or whether that is something that you learned in kindergarten, on Sesame Street on TV., you know, you want to establish a set of sort of social institutions, but train people in that way so that those are the values that people bring into the market and that society, therefore, you know, that then get reflected inside the market as it operates.

Secondly, the good intentions and the good behavior of individuals are not by and of themselves enough to guarantee good outcomes, in part, because, you know, Bill sort of quotes the original sin concern here, that, you know, people, you know, don't always live up to their best behaviors, and that, you know, ill behavior and greed are embedded in all of us, and in part because good intentions don't always produce good outcomes. And, you know, many people involved in the current financial crisis had no intention whatsoever of doing ill, and yet ended up working inside a system that, indeed, did produce some of that. There are exceptions to that, obviously.

But, you know, so you do want to set up, as Bill says, a set of structures that surround the market and that provide the encouragement and the incentives for certain types of behaviors. And many of those are regulatory, you know, many of these are created by the public sector. I mean you want an SEC that finds – schemes and makes sure that anyone who's engaged in them is punished almost immediately, right, and is picked up, and you know, you can't lie that long in these sorts of situations.

You want a set of regulations that enforce certain, you know, things. You want a set of laws that level the playing field, you know, and you want a set of presumptions about how the market will operate that go beyond laws and regulations, that, you know, become accepted business practices, so that the ways in which leadership behaves inside companies actually matters, the ways in which the public sector presents itself and what it expects from companies actually. You know, Barack Obama's insistence that, if I say they're not going to be lobbyists or I say people in my administration aren't going to lie and cheat means certain things when, you know, certain aspects of character of my appointees are revealed. I mean it matters how the leadership behaves here, just as it matters what the structures are like, because it creates a set of incentives and a set of rewards that surround individuals and channel them into certain types of behavior.

So, you know, the answer – does markets corrode character is, you know, yes and no, of course, they do, of course, they don't. It's not what the market does inherently, it's what the market is and how it's set up inside of society, and society can set up markets in such a way and set of the larger social institutions around them so that markets can be incredibly corrosive, or you can set it up in such ways that markets can actually encourage and operate in ways that are transparent and fair, and that is a political and a social decision, it's not a market decision.

MR. DIONNE: Thank you. Bill.

MR. McGURN: E.J., thank you. Usually E.J. has me representing the dark forces of mammon, so I'll try to do my best. But I don't have much disagreement here. I think I – rather than rehash some of what's said, I mean when I approach the question, I ask two things, first of all, does the market corrode character, one, compared to what?

And I think that's always a good thing, not just another system like a command economy, but compared to government, you know, if you look at scandals in government, compared to the NFL scandals there, compared to a college ethics course today, which I think does a lot of damage to a lot of kids sometimes.

So I think it's always we're dealing with the practical arrangement for how we live, it's always worth comparing it to something else to put it in its proper perspective of where it sits.

The other one is just the definition. We like to talk about the market as the market, and the market is, you know, insofar as I understand it, it's voluntary exchanges between people. You know, at its freest, it's completely voluntary exchanges. And so the question is, what it really deals with is freedom. And one way of – not the only way, but one way to ask this question is, does freedom – or can freedom corrupt, and I think the answer is, of course.

There are people that are going to abuse freedom all the time. I mean from classical times down, our philosophers have worried about that. And I think, like Bill said, what we want is a structure, not only that has rules, rules are important, and rules we tend to find through practice, we tend not to come up with them in the abstract saying – we tend to, you know, shut the barn door after the horse has left.

There will be a whole slue of rules to address the financial crisis, and I think that's the way it's always been. We learned lessons after the Depression that, if we had known before the Depression, we might not have had a Depression, so that's one part.

There's also an important part of the system, I think Bill and Becky would agree with me, of incentives. Some things you can't necessarily have rules for, but you want some incentives so that people are kind of playing by the rules in this way. Sometimes these incentives are inherent. I mean transparency is one incentive, because if people know that others are going to look in at what you do, they have an incentive to behave a little better. When I was in government, you know, the classic one is, how would what you say look on the front page of the Washington Post or what you do.

Once I left the White House and someone – there were a bunch of protesters giving me very obscene gestures, and I was very tempted to return the favor, but knowing full well that someone would have had a cell phone and I would have been on – drudged in about four minutes before I left the car.

So there are good incentives for behaving better, and I think that's also important, when we can't do rules, we have to try to build the incentives for people to be virtuous. I mean a Catholic would put it – occasion is a sin, but you want to avoid people being in a situation or give them incentive not to do it even when they could.

And then the final one related to that I think are individual virtues. I mean one of the questions is, does it corrupt, and I think, from the discussion we talk about, there's two ways of corrupting, it could corrupt you individually, the market in some ways, I think it's probably better to say a consumer society inflames appetites and excites things and so forth. I mean you could have a – there's a market for drugs, there's a market for prostitution, there's all sorts of things, there's a line of markets for stuff that scare me when my kids are watching TV., that's one, and the other is, I think, they're talking about more structural things, if there's a hole in the system somewhere or something that people can exploit, they'll do it.

In some ways Bernie Madoff isn't that exciting a figure, he's just – I mean he just ripped people off. It's not as related to the financial crisis, he's a classic, you know, old Ponzi scheme. The other ones are more complex, the people moving into an area, and there's a lot of fingers in this pie, there are a lot of people that bear different responsibilities for it.

So we have to ask, does it corrupt that way, and I think it – obviously, it can if we're not careful. So we have to attend to those structures.

And one of the points, I forget whether it's John Gray, someone in this booklet was making – I mean the market isn't just chaos. I mean I know – talks about spontaneous order, which I believe. If you go to a slum, you will find people making agreements, and fairly ruthless about the penalties for not abiding by, because they don't have a lot of luxury. But in truth, the market is functioning with the rule of law and different things, so it requires a structure within it that we cannot exchange rates, the whole thing, and we could disagree about different parts, but it does require that kind of structure to work.

And we're going to find there's going to be excesses, they're corrected frequently I think, they go in the opposite direction, and then you come back and you recorrect those, and I think that's a lot about the practical wisdom of the market.

MR. DIONNE: Thank you. Having praised the Templeton question, I want to attack the Templeton question and throw – and by way of asking questions here. First, I want to attack it from what you might call the principal left, by going at that word “free market”, is there such a thing as the free market? Isn’t there a cost of entry to the market? So not all markets, based on some set of rules which advantage some people and disadvantage other people, if you think of the CEO pay, the CEO pay has very little to do with the market and a lot to do with political control over the processes through which bonuses and salaries are rewarded, and that the CEO’s profit from a social decision, and we’ve allowed that kind of reward to be handed out by these particular institutions called corporations, which are themselves a creation of government policy. So there really is no such thing as a free market, is there? And then I will ask my question from the right. But let me – does anyone want to jump on that one first?

MS. BLANK: I’ll jump; I always thought free market did not refer to quite the way you’re using it, I always thought it referred to the fact that, at the center of the idea of markets is the idea that an exchange is voluntary, it’s freely given, that both sides think they’re getting something from this, you know, in the buying and selling process, and so the freedom here is the freedom to participate or not participate, there’s no appropriation, there’s no forced participation.

You know, in that sense, you know, free markets are something a little different than the way that you're using them. You know –

MR. DIONNE: All right. But how many – so what extent do those actually exist versus the real world in which we actually live? Is the, you know, if I set up a lemonade stand and you buy the lemonade, that's I think a free market, but how far does it extend in terms of the way the economy actually works?

MS. BLANK: So I actually think the idea of freedom to participate or not is actually, in many – in the majority of cases, I won't say everywhere, still, you know, embedded, you know, embedded in most markets and exists certainly in the developed world.

On the other hand, you know, do markets operate freely outside of social constraints and social norms, of course not, you know. In a world where no one hires women for anything other than, you know, a certain set of jobs, markets don't behave any differently. You know, in a world where it's acceptable that certain types of pay scales exist, you know, you find – this may start in one sector of the market, but it spreads to others because it becomes the social norm.

So, you know, markets are certainly not free in the sense of being some construct out there that exists outside of society; they are always deeply, deeply embedded within the social forces.

MR. DIONNE: I want to turn to Bill. By the way, I don't ask him to represent the dark forces of mammon, I ask him to represent the lighter side of the dark forces of mammon. Bill.

MR. McGURN: Well, I agree with Becky, to me, a free market is like a frictionless surface, you know, it's very handy construct, but there are degrees.

MR. DIONNE: But there are no frictionless surfaces.

MR. McGURN: Right, there are no – but there are degrees of it. I mean Hong Kong is a lot freer than Venezuela, and different people will have their different balance and measures, one of which being market entry. But I think we recognize – I mean there's a lot of different measures out there, the Heritage Foundation has one, and there's – the group in Canada has another, other people have their own measures of what the ten or 20 things would be, and some would be very high on one scale and some would be lower on another, and there would be – different people would weigh different things.

I think market entry is actually a good – in terms of an ideal market entry, it's a very, very big thing, because, one, it's the key to competition, if I can't enter the market and compete with you, it's a lot more difficult, so I think that that's one test. And if you look at that, I forget whether Hernando Desoto did the study of starting up a business, you know, in Hong Kong, the joke is, you get an idea at breakfast and incorporate by noon and be, you know, doing business in the afternoon. It's something like – I forget whether they did Venezuela, one of these places, not Venezuela, I can't remember, Peru, and it took something like two years or something to incorporate.

So I think there are practical degrees and shades of what we do, even though we may weigh different things differently.

MR. DIONNE: Bill.

MR. GALSTON: Well, two points, neither of which is exactly by way of disagreement. Number one, not only are markets embedded in societies with social norms, markets are systems of rules, and the rules create very particular kinds of incentives.

There's no such thing as a neutral system of rules, and the same way as there's no such thing as a neutral electoral system. Every system of rules will have characteristic tendencies and biases and create characteristic problems and anomalies. And so, you know, I think that referring to the free market is probably misleading. There are different sets of rules, and you have to look at each one for the advantages and disadvantages. And the more multi-dimensional the metric is –

MR. McGURN: Right.

MR. GALSTON: -- the more likely it is that some will score higher on some and lower than others. And you're not going to have very many peredo (phonetic) superior sets of market structuring rules.

The second point is that, I think you're absolutely right that within the overall economy, there is a – you will find a mixture, particularly in the United States, but not only in the United States, of market and non-market forces.

And so if you have a situation where a salary is determined by the vote of a small group of people, the vote may lead to a reasonable result or it may not, but it's certainly not an example of a market, particularly if there are no feedback mechanisms that punish a corporation for setting that price too high or too low. Well, if you set it too low, then you may create the flight of – people from the corporation; if you set it too high, well, unless there is very little slack in the system, there's no feedback mechanism that punishes that corporation other than a political mechanism. So in that sense, this mixture of market and non-market decision-making within this broad structure that we call the economy is responsible for a lot of what we observe and a fair amount of what we deplore.

MR. DIONNE: Right, because, in a sense, corporate capitalism is distinct in certain important ways from an idealized free market, I think. Let me ask my question, it may be from the right or from a pragmatic side. The other critique of the question would be, what's the point of arguing about markets at all? Markets are inevitable, they will always appear. Even when they're outlawed, there are black markets.

So isn't the discussion really not about does the market corrode moral character, even if it does, but rather, given – markets are a given, so our argument is over which aspects of moral character are we worried about and how do we protect them? Who wants to take that? Maybe I can go to the theologian in Bill McGurn on that.

MR. McGURN: I've never been called that before.

MR. DIONNE: Well, a Notre Dam philosopher – beginning of a –

MR. McGURN: I think that's – I think there's some truth in that. But I think as, what Bill was saying, there are going to be very different kinds of markets. I mean you could have markets like you have in the Soviet Union, not the Soviet Union, Russia today, and again, markets like Hong Kong. And I think that the society has – does shape it, and to the degree that we're free, we shape it in the way we want to.

I mean I'll give you an example that will sound very arcane here, but when I lived in Asia, it's the perennial debate between Hong Kong and Singapore. If you look at most of these weightings in the world, you'll see they're number one and number two, depending on how they do it, they're completely different cultures.

I lived in Hong Kong for ten years, but Hong Kong is really a Chinese society, part of China. It's done – even though it's international, most of its trade is with China and so forth, China oriented.

Singapore is a dominant Chinese society, city state in a Muslim sea, and they're much more interventionists. And if I had to do a very broad kind of comparison, Hong Kong is sort of the wild west where a lot more goes, a lot more efficient in terms of using capital. People that measure efficiency would say Hong Kong was a lot more efficient. Singapore, however, has other things. If you went to Singapore, the environment is much better than in Hong Kong, it's much more regulated, it's much more corporate.

I'll put it this way, if you were an entrepreneur, you would prosper the risk taker and stuff in Hong Kong. If you're in Singapore, Singapore is sort of the corporate office headquarters in Asia, and people like it there, because when you go to a foreign country and you don't know the culture, you can be shaken down.

In Singapore, one of the things that they compete on is that they're relatively honest. You don't have officials putting out their hands the back door to get stuff. In Hong Kong, you don't really have that either because you don't need the officials permission to get your – so forth.

The way they did it on the democratic side of this argument, I think it was Huntington was arguing, he was arguing Taiwan, which is very similar to Hong Kong compared to Singapore. One is, Singapore they say is clean and mean, Hong Kong is messy and fray, or Taiwan. It's a little bit of an exaggeration, but they both have values. I mean I lived in Hong Kong; probably as a living place, I would like the quality of the air, of the parks and everything, there's a lot of stuff that makes it nicer. Hong Kong was more of an opportunity society, a lot of refugees coming in, people that come in and strike it rich, so they reflect different kind of cultures.

In Singapore, they were also much more politically aware, they're much more sophisticated I think internationally, because it's not just business dominated, and partly that's because, as a Chinese society in this Islamic Sea, survival is one of their questions.

So they're far more sophisticated about the world, where Hong Kong, they left it up to the Brits for a while, now it's China. They're kind of – they're not into politics that much, you know, in terms of the world around them.

So I think you get very different kinds of systems even within something that would be, to most outsiders, look exactly the same. There are raging debates of this and they go back and forth in the number one and two ratings, but they're very, very different kinds of societies reflecting different values and different laws.

MS. BLANK: So I think I have quite a bit of sympathy with the perspective that says, you know, let's not debate the markets and whether they're, you know, let's talk about those, you know, the world in which they live. But I guess I want to take exception to the presumption, though, that says markets are inevitable. I mean that's a very modern viewpoint, and that markets are really a very modern invention.

In traditional, self-sufficient, largely close societies, which is where most of the world was for most of known history, yes, there was some amount of barter, but it was a very small part of the society and how goods got – who determined who got what.

And, you know, markets have come along quite recently, and it's a really fascinating question because there's quite a bit of literature that says markets are pervasive and invasive, that once a market is introduced, you can never go back.

And I have to say I don't think there are many, possibly some of the Eastern European countries immediately post-World War II are an exception to that, where you see what was a market society transformed into something else. It's, you know, markets have certainly been pervasive and invasive in the modern world, whether they're inevitable and will always be there in this sort of form, I think it's an open question from history.

MR. GALSTON: Well, I think it's hard to imagine any society, including ancient society, without at least a modicum of market-like features and features of behavior. But there is a point, to quote Marks for the second and last time, where quantity becomes quality.

And if you're in a society in which most of the goods that are produced are commandeered through force or the threat of force by a central state apparatus or by decentralized thuggish actors in the system, and the space that's left for what we would think of as free and voluntary exchanges relative restricted, then I think the sense of inevitability that your question suggests is eroded considerably.

And, you know, and if you go back, I'll put my political theorist hat on for just a minute, to the beginning of Aristotle's politics, you know, the notion of piracy and seizure is one of the dominant modes of, shall we say capital accumulation, and it's market-like features are limited.

And those sorts of societies were conspicuous, you know, not by their rarity, but by their prominence throughout much of human history. And so I guess this is an elaborate way of saying I sort of agree with Becky, that it sure does make a difference where, you know, where these market-like exchanges are situated in the overall panoply of a society's activities.

MR. DIONNE: Let me just say I have a bunch of questions I want to ask. I'd love to see some hands. Everybody in this room probably has his or her own answer to the Templeton question. Who is likely to want to get into the conversation at some point? Okay, that's great.

We have a mic. Why don't you – I'm going to ask one more question. Let's locate someone – why don't we start in the front of the room, this gentleman here, and then we'll go on that – we've got one mic, so you'll have to float around and run around because I don't want to – we want neither the left side of the room, nor the right side of the room to be favored.

Let me ask – you grab the mic for now, let me ask my question, then you'll be ready to come in. Let me just put two questions together and you can answer either or both as you see fit. We were talking at lunch about Daniel Bell, the cultural contradiction to capitalism, and I think there is another sense in which the Templeton question does go – it's something else the question does get to, which is, capitalism, to over simplify Bell's argument, requires a number of virtues, thrift, hard work, long term commitment, and the way capitalism actually operates, it undermines all of those virtues as it goes along, so it doesn't contain within itself the seeds of its own preservation. Putting aside whether I've done justice to Bell, is that true or false?

And I want to connect that with a different – you know, incidentally, I would also add to that that the market disrupts families, it can often destroy communities, witness a lot of lovely towns that are now ghost towns in places like Pennsylvania, Ohio. You know, there are huge costs to some very conservative virtues in the market's operation.

The other side also is that it's good at allocating consumer goods, very bad at dealing with social goods, the environment being a good case in point. If you see health care as I do, as a social good, it doesn't do a great job education, we can argue about that. And so I'd like you to address both the cultural contradictions question and the, you know, is it – sort of is the market inherently bad at allocating social goods? Why don't we turn to the economist?

MS. BLANK: So the fact that the market has many advantages is not a statement that all aspects of our life should be governed by markets, and anyone who argues that position I think has not thought very hard about quite what the implications of that are, though, of course, libertarians will argue it more strongly and cover more aspects of life with this. But we regularly –

MR. DIONNE: I have a friend from Kato here, by the way.

MS. BLANK: Yeah; I mean the – we ban markets in all sorts of – all parts of social life. We ban markets with regard to our children, we severely constrain markets around things like marriage, we tend to ban markets with things that relate to the human body, whether it's prostitution or whether it's the sale of organs.

We certainly ban markets in our civil life, though sometimes they get in there illegally, so that you can't buy and sell boats, or buy and sell, you know, the result of a jury trial or police protection or some such thing. And we can argue over the, you know, margins and how effective those bans are. But there's strong reasons to want to exempt certain – to not modify certain aspects of human life, and so – so that comment on, you know, sort of – the question of social goods versus consumer goods, so, you know, as the economist here, yes, the simple market stories work best for consumer goods, but, you know, there are slightly more complex stories which actually give you some pretty good answers for how do you deal with social goods, how do you deal with such things as, you know, environmental degradation, where, you know, there's problems with the commons here and individual incentives aren't well aligned with social incentives.

And, you know, there's actually some pretty good economic answers to how to solve that. There's sometimes political problems in putting those answers in place. But, you know, I would hate to say that, you know, it's not the simple Econ 101 model of how a market operates. But that's okay, most, you know, most things that we talk about are a little bit more complex than what you learned in your first course, you know, on whatever topic it is, including moral philosophy.

So, you know, I wouldn't want to say that, you know, I don't – markets of economics, but I think economics has a lot to say about how you deal with social goods, and much of what they say about that is deeply embedded in their views of markets and how you use markets effectively and where you use them. So such things as buying and selling permits for pollution is a way to use a market to overcome, you know, through the public sector, to create a new market that overcomes the social private conflict.

MR. DIONNE: Anyone else want to take –

MR. McGURN: Yeah; some of it, on virtues I think, one of the things is, I'm not sure I agree that it's a given that it – that the market punishes virtues like thrift and hard work and rewards – it rewards risk. I think you're using the terms of the reckless risk. And we see these guys now, and a lot – you see – I mean through history, there are bubbles, people fly high and then they're cut off.

The guys who actually do well at it were the guys that are more prudent. I mean someone like Warren Buffet, who does not share my political or economical beliefs, but he's generally a much more prudent long term investor, I suspect he's doing a lot better than the other guys that bet all their chips and so forth and were taking these risks. There is a little bit of a correct – it's not always perfect, but there is a little bit of a correcting mechanism. And I think like most virtues, the reward for most virtues is over time. Like with your – when you raise your child and you say, you know, be honest or this, they're going to suffer at some point because of that because they'll pass up different things or they won't do – but in the long run you think that they will have a happier and healthier life because they've kind of – to the straight and narrow, it's not always perfect.

But I do think a lot of these guys that take these huge risks, in the bubble, you know, they're exposed – someone used the term at lunch, who quoted Buffet?

SPEAKER: I did.

MR. McGURN: What was the quote? It was a great quote.

SPEAKER: Well, Warren Buffet said, you know, it's only when the tide goes out that you can see who's been swimming naked.

MR. McGURN: Right; and I think that that does – that holds true. In terms of structure, there are things we call moral hazard, when you get to enjoy all the benefits of your risks and everyone else gets to share in your losses. I mean there's a lot of situations that are moral hazard. And I think the last thing I'd say is just, people that do believe that there is a connection between virtue and the market do not believe that the market necessarily creates it, it incentivizes some of it. I think one of the things that's lost is that the market depends on virtues that the market itself cannot produce in and of itself.

Someone mentioned, you know, families; I remember there was a cartoon years ago, I think in the '80's recession, in the Journal, one of the kind of business guys at the table with his three kids, and he's saying, children, you know, times are bad, I'm afraid I'm going to have to let one of you go, at the dinner table, we don't behave like that.

But I think one of the things we've lost sight of, because we tend to either think that there is a market solution or a political government solution, is a cultural solution depending on institutions.

One of the things that would concern me is, I think that there's been a weakening throughout society of institutions all along the way, teachers. I'm reading Barack Obama's biography, finally caught up with it, and it talks about the inner cities. Just the lack of any authorities, teachers, and how the adults became afraid of the kids, I'm just reading the part where some kids come around the corner, just one 13 year old with a gun, and they're lamenting how there's no – it's not just the lack of a person, there's not a structure that people respect, and I think we've had the weakening of that, because those are the incubators of virtue for most people, their schools, their families, their churches, the military or whatever it is, and I think we've had a weakening in that, and I don't think we should be surprised when the result of that is people with less virtue.

MR. GALSTON: Interestingly, in very different ways, you know, Bill and Becky seem to agree on a point that I don't accept, and so as my contribution, why don't I just put the disagreement on the table. Both of you in different ways have suggested that, morally speaking, the market is a kind of blank slate or a kind of mirror, you get out of it what you bring to it, at least, you know, as a society, and if the market is producing deformed results or unacceptable results, it's because of a background, you know, background deterioration of the culture, social norms or what have you. I happen not to believe that, at least I don't think that's the whole truth. I think life in markets has some characteristic character and trait forming tendencies, and so it is both a dependent variable and an independent variable to talk the language of social science. I mean there's a wonderful passage from Voltaire that I will take the liberty of quoting, since I just happen to have it here, you know, where, you know, Voltaire is talking about his experience in London.

Some of you probably know this passage, and he writes as follows, "although the Episcopalian and the Presbyterian are the two main sects in Great Britain, all the others are welcome and live quite well together, while most of their preachers detest each other with about as much cordiality as a Jansenist – Jesuit. Come to the London exchange, a place more respectable than many a court. You will see assembled representatives of every nation for the benefit of mankind. Here the Jew, the Mohammed, and the Christian deal with one another as if they were of the same religion and reserve the name infidel for those who go bankrupt."

"Here the Presbyterian puts his trust in the anti-Baptist, and the Anglican accepts the Quakers' promissory note. Upon leaving these peaceful and free assemblies, one goes to the Synagogue, the other for a drink. Yet another goes to have himself baptized in a large tub in the name of the Father through the Son to the Holy Ghost. Another has his son's foreskin cut off, and over the infant, he has muttered some Hebrew words that he doesn't understand at all. Some go to their church to await divine inspiration with their hat on their head, and all are content."

Now, you know, and what Voltaire is saying there is that, you know, is that life in a market society puts certain sorts of things into higher relief and puts other things that, in different circumstances, are the sources of division and contestation and strife in the background, and that shapes consciousness, you know.

Life in markets is more about the interest than it is about the passions, and certainly that's the case if you want to succeed in markets. And so one of the things that you get in market societies is more interest directed behavior and less pride directed behavior, because if you're proud in market circumstances when you ought to be flexible, you will pay a huge price.

So, you know, for that, among many other reasons, I think of life in market societies as having an internal dynamic which gets to the Daniel Bell point, because among other things, life in markets changes over time. I guess I'm going to have to cite Marks for a third time now, because different modes of production in body and reward different ensembles of virtues. Richard Senate's work is great on this point because he compares the virtues that are rewarded in a system of mass industrial production, with the virtues that are rewarded in a post-industrial society, they're not the same sets of virtues at all.

The virtues that are rewarded when there’s no such thing as a mortgage for a house are very different from the virtues that are rewarded once a system of mortgages is invented, and you don’t have to save up 100 cents on the value of the house or the car before you can buy it.

So these historical changes that are produced through ensembles of market behavior can have huge moral effects that no one designed into the system, but which are nonetheless enormously important in shaping the consciousness and moral sense of the society, or so I believe.

MR. DIONNE: Isn’t another way to put what you said, that the market turns even theoretical non-materialists into materialists. I’d love to know what Voltaire would have written if he walked into a mall, a suburban mall, and what one makes of the values that are promoted, which is actually a fairly perfect kind of market place.

MR. McGURN: Voltaire would not have been surprised to see McDonald’s happily cohabitating with Thai and Chinese take-out. He would have viewed that as the perfect example as sort of cultural homogenization that occurs when these different things live peacefully cheek by jowl.

MR. DIONNE: What would he make about Abercrombie? But anyway, I want to go to the question. And Becky mentioned the buying of justice, and it just reminds me of the great story of the corrupt judge, everybody knew he was corrupt, one lawyer in a case paid him 10,000, the other paid him 5,000, and he held a meeting in chambers with the two lawyers, and he quietly said, look, if you give me another 5,000, this trial can be on the level.

MS. BLANK: There goes my point.

MR. DIONNE: Great, go ahead, back there. And then do we have a second mic? Let's go to the lady in the front who had her hand up first. Go ahead, please. Could you identify yourself, too, if you don't mind?

MR. DAVIDSON: My name is Ken Davidson, I'm a Senior Fellow at the American Anti-trust Institute. I think the question, the way it's written, does the free market corrode moral character, is probably badly phrased. The free market requires moral character. Kenneth Arrow, in his famous book, The Limits of Organization, said you have to have trust in order to have a market, otherwise, nobody is going to enter into an agreement.

All of the defects that you're talking about are not free markets, they're actual markets, they're markets that have all kinds of distorting incentives. So it isn't the market itself, it's the way people have put them together that either works to create perverse incentives or maybe eliminates them, I think.

MR. DIONNE: Thank you. By the way, Gary, at any point you can defend your question, if you choose. Could I just read quickly from one of the essays in here, Mike Novak says, which makes aversion of your point are, forbearers believe that a commercial society would instruct all its members in hard work, regularity, and innovation. It would also teach Americans to be bold and adventure, like the New England Sea Captain, modest in their expectations of gain, and thrifty in their repeated reinvestment of gains for the sake of future compounding. These activities would be an alternative to the conspicuous assumption of the old landed aristocracy. A commercial society encouraged an honest, responsible, self-denying, and future oriented citizenry. Such citizenry is especially needed to make free republics law abiding and prosperous. That's sort of a version – another version I think of your core question. Who wants to comment on that?

MS. BLANK: I want to make a comment on that. So there's a big debate and big differences in belief amongst economists as to what extent do you see markets in their purer form and to what extent do you almost always see markets rise with imperfections and with market failure, right.

And, you know, Milton Friedman received a Nobel Prize for arguing that markets in their purer form are the – dominant way in which markets appear and the way in which we should deal with them. And Joseph Stiglitz received a Nobel Prize for arguing that there are very rarely markets in a very pure form and that the world is rife with market failure and imperfections. So, you know, the argument – and this was sort of the question that E.J. asked a little earlier, I mean is there such a thing as a free market in its, you know, in its sort of unadulterated form. I mean my reaction is not very often, but, you know, I'm more of a Stiglitzian than a Friedmanian, I guess.

SPEAKER: Well, but you raised a fascinating question, at least it fascinates me, okay, so you know, that's good enough for me. When you talk about trust, there are two things that you could have in mind. First of all, from personal knowledge, you can come to the conclusion that a particular individual is trustworthy, right, and in that sense, you are, in fact, talking about an individual virtue.

If you look at the way market societies function, particularly in sort of continental nations like the United States, where frequently we are transacting with people who we don't know, then the trust cannot be directed to the individual whose character we can't assess.

What we're talking about is institutions that we believe are suitably structured so as to produce trustworthy behavior in people who left to their own devices might or might not be trustworthy. This is a point that goes back to James Madison, where, you know, Madison points out that virtue is possible, but it is typically in short supply, and therefore, it is wise, he points out, and I quote, "to make use of auxiliary precautions." And by auxiliary precautions, he means institutions that are arranged so that if someone has, you know, an inclination to behave in an non-trustworthy fashion, that person will know that there is another institution in this society staffed by people whose self-interest is bound up in hunting that person down if he does behave in a non-trustworthy fashion and punishing him.

Now, if those institutions go wrong and people get the sense that they're ineffective, and therefore, that they can behave in an untrustworthy way with impunity, you know, Harry Markopolis talking about the SEC just yesterday, then the behavior that we don't want is enabled and the vice rings supreme. So to summarize, trustworthiness in a mass market is a function of institutions and not just a personal character.

MR. DIONNE: It was Madison, right, who said trust the dealer, but cut the cards, right? Please.

MS. POPLIN: My name is Carolyn Poplin from the Center for American Progress. This has been a very abstract discussion, and maybe I misunderstood the question, but stipulating that Tom Daschle is a really nice guy, and he would have been a terrific Secretary, and we probably won't get one as good, do you see this as a problem that was brought on by market values?

MR. DIONNE: By Daschle's own embrace with market –

MS. POPLIN: Was Daschle corrupted by market values?

MR. DIONNE: Somebody take that, that's a good question.

MR. McGURN: I mean I think that – well, there was a famous 19th century official, if that's the right word, in Tammany Hall, by the name of George Washington Plunkett, and he became famous for saying, among other things in describing his illustrious career, I seen my opportunities and I took them.

He was also famous for coining the phrase, "honest graft", by which he meant he took his ten percent and then actually delivered the building or the subway, and you know, who's to object, I must say there's something to that.

Look, what I meant right at the beginning, you know, of my opening statement was that certain sorts of vices and tendencies are inherent in the human – in human nature. And the fact that a human being can succumb to the temptation to act greedily, to go to excess in the acquisition of money, I don't lay at the feet of the market system. You might say, you know, in Catholic terms, that certain sorts of systems do constitute occasions of sin, and it might be wise to arrange institutions with that fact in mind.

MS. BLAKE: Are you suggesting the tax system is an occasion of sin?

MR. McGURN: I am; but there are many other occasions. Having said that, if I were a conservative, but you don't have to be a conservative to make this argument, I would insist on the proposition that the larger a governments reach is, the more opportunities for – seeking behavior there are, and that the explosion of lobbying, the Jonathan Roush, among others, you know, has documented is, in part, a function of government's reach, and the fact that two or three words in a complex piece of legislation can transfer billions of dollars from one pocket to another, so these are occasions of sin definitely, and – but I think we're talking about something that's not entirely a market phenomenon, to put it mildly.

SPEAKER: I mean we have to decide what Tom Daschle's sin was, he didn't pay his taxes, I mean he did not pay his taxes, that's his sin. Now, if the disapproval is that he made a lot of money as a quasi lobbyist, that's another whole issue, but that's not why he was dropped, he was dropped because he owed 100 something – as someone put it, a limousine liberal who didn't pay his taxes on limousine. I mean it's a pretty simple –

SPEAKER: Well, it could be better.

MR. McGURN: -- I don't know that there's many other incentives for that. I mean you could have a whole debate, and I think there's a legitimate debate on the role of his job and, look, all these guys sell their influence, I don't necessarily mean that in a bad way, but they're hired because they know people, and it doesn't necessarily mean they're doing something corrupt, but that's a separate question.

The reason he was let go was because he owed, you know, almost 150,000 – I'll tell you, I was in government, I put down every year my financial disclosure statements, they're very painful, and the guy – the ethics guy at the White House said you're one of the easiest, you have no conflicts of interest because you don't really have any assets apart from your house, and it was still a pain. But I know, you know, I don't think there's any larger lesson to the Tom Daschle tax thing then he just chose not to pay his taxes until he –

MS. BLANK: I think you're wrong.

MR. MITCHELL: Yeah; Tim Geitner didn't either. Tom Daschle's problem was two-fold; one was –

MR. DIONNE: Can you identify yourself for everybody else?

MR. MITCHELL: Oh, I'm sorry, Gary Mitchell from the Mitchell Report. Tom Daschle's problem was timing. Had he come first, he'd be the Secretary of HEW and Geitner wouldn't be Secretary of Treasury, and that was really torpedoed when the Chief Performance Officer dropped out early in the morning, it just made him go. I'm not saying it's wrong – it's right –

MR. McGURN: My question is simply, is it right to not pay that tax or wrong? What he was in trouble for was not paying his taxes. I wouldn't have voted for a Secretary of Treasury that didn't pay his taxes, so it's a lot easier for me. And I've been there, I know what people disclose and I know what people do; I don't think they did it.

MR. DIONNE: Could I ask – I don't want to go completely off on this excellent question because we've got other people, but I just want to suggest a colleague who's writing a thesis on lobbying and I were having this conversation yesterday, and I do think, to go to your question about the market and what it does, clearly in Washington, there is this junction between the rewards that flow to those who actually work for the public and the rewards who flow – that flow to those who work for private interest before government.

And we were talking about how congressional committees lose extraordinarily talented people because they decide they need to make some money to send their children to college, maybe buy a bigger house and so on. And so I think there is a case to be made that in the balance between the rewards that go to private sector work and the rewards that go to public work, we may have gotten them even more skewed, perhaps simply because there's a lot more money out there to be made in the public – in the private sphere than there used to be, but the balance is now off. But one last comment from you, because you raised this great question, then we'll move on.

MS. POPLIN: Oh, I was just going to say, technically you're correct, that was what he – but there was tremendous public reaction, not just to the fact that he didn't pay his taxes, but to the fact that he monetized his 20 years of public service. He made so much money in such a short time, without really showing the work, so –

MR. McGURN: I think that goes to E.J.'s point. I mean I would say that he is not strictly speaking what I would think of as the private sector. What you're paid for I that case is, you're paid for your influence with people that set the rules for the private sector. So one little – I mean I have a brother-in-law that works for some engineering company and they design – they designate flood zones, and he just tells me little changes, it's a lot of money, so I don't see that as a pure market – that's trying to set – that's even basic a market, trying to set the rules to favor your enterprise and use your influence to set the rules.

MR. DIONNE: But all I was saying is that the people who, in theory, are representing the public interest, i.e., the public servant, the public official, what you used to do, have – their rewards are now much – even more out of line, I believe, we'd have – need an empirical study to prove this, but I think they're even more out of line with what the private sector rewards, even just representing people to move the line on that map than there used to be.

MS. BLANK: I mean I would argue that it's absolutely valid to demand of those people who, in one form or another, are paid by the tax payers a set of transparency and openness and a set of financial rewards that may be different than what happens in the private sector.

I mean I don't have any problems with saying there are, you know, if you were in the public sector, there's certain rules you have to abide by which we may not expect anyway, people outside the public sector to abide by, I think that's fine. I agree that you create a whole new set of problems when the gap between those becomes too large.

MR. DIONNE: Right; I'm not saying that we can possibly raise the public sector anywhere near the level of the private sector, just that the gap is too big.

MS. BLANK: I mean to open up a question that I'm sure – this is exactly what the debate, of course, about the financial firms are and what you demand – once they become private sector – public sector supported, what is the world that they live in if they haven't quite gotten the fact that the rules have changed on them, but yeah.

MR. DIONNE: Right; the gentleman back there, please, and then a hand over here.

MR. ROSE: My name is Howard Rose, I'm with the Peterson Institute for International Economics across the street. It seems to me that the question should be, does the market encourage immoral behavior. And here, I'm kind of curious, Bill Galston, you've now said this twice, that people are inherently evil, I'm paraphrasing what you said, that they have these vulnerable tendencies.

MR. GALSTON: Have a tendency toward sin.

MR. ROSE: They tend toward sin, but what we do know is that, you know, some of them lust in their hearts while others of them act it out. And so the question is, does the market encourage that behavior? And what I'm curious is, if it didn't, then we wouldn't need the social institutions or the rules that you suggested if it was a pure market, but because it's not, we need to have these social institutions and rules, to go back to your joke, to protect ourselves from ourselves. So the question that I have is, why then do different countries or different cultures have different rules? Are they making a different calculation of sin versus risk taking? Are their people less virtuous than ours? So what then defines the differences in these rules?

MR. GALSTON: Well, a good question, Howard. And so now you'll let me descend one slice below the tip of the iceberg. I was – my full view is what I will loosely call the Jewish Bill – the Jewish view, namely that there are in human beings as individuals and as a species a mixture of motives and tendencies, you know, some of which tend towards evil, or should I say the dark side, and others in a more virtuous direction, but that my point was that the evils that we decry as we look around us in our society, which are clearly permitted by market arrangements, there is an issue as to whether they're encouraged or simply permitted, in my judgment, represent an expression of human nature and not the market writing on a tabula rasa and producing those deformations.

Now, difference societies do, indeed, have different sorts of social preferences that are then built into market rules. Let me give you an example. Clearly, in many European countries, there is more desire for stability, for the absence of disruption of settled social arrangements, and therefore, sets of rules that are designed to minimize the disruptive pressures. And some of those rules are written into the way their markets are allowed to function, others represent external constraints on the market as such.

And social theorists since the founding of the United States have noted that we tend to, perhaps because we're, among other things, an immigrant society, and immigrants have to cut loose from their previous settled arrangements to come here, they have disrupted themselves in order to become American, so there's a higher tolerance for disruption, for instability, for mobility, for risk taking, a lower preference for stability, and all of that enters into our economic and market arrangements.

I could go on and on, so yes, indeed, there are these deep differences, some of which reflect demography and history, others reflect religious differences, who happen to think, for example, that Max Weber was onto something in talking about the Protestant ethic. Then you will believe that there might be a systematic distinction, at least in the old days, between Catholic countries and – predominantly Catholic countries and predominantly Protestant countries, et cetera, so all of this enters in.

MR. ROSE: Yeah, but, Bill, why do some countries have to have laws against slavery and others don't? I mean are those people more prone to take advantage of workers?

MR. GALSTON: Well, I mean the fact of the matter is that, at earlier points in human history, the institution of slavery was more than norm in the exception, and different countries have moved away from that at different rates. And I don't think that that's a question – I don't think that's a question of the distribution of virtue advice in different populations, it's much more complicated than that.

And, you know, the fact that we now think of slavery as an anomaly when we encounter it is a historically novel phenomenon.

MR. DIONNE: Thank you. Over here.

SPEAKER: First of all, thank the panel for looking into this question, because this is really important, it's a fundamental question. When people are, you know – from crisis to crisis, this is probably something more important for this country or capitalism in the long run, but probably I'm not following you. It sounds like all of this discussion is quite theoretical. We have a case in front of – people have been watching the news, I mean if I had asked the audience, what do you think of the Wall

Street today, do you think it's corrupt or do you think it's okay, if you raise your hand if you think it's corrupt, raise your hand.

SPEAKER: Wall Street corrupt.

SPEAKER: So if – to answer your question then, market corrupt – absolutely. This is the case – case in point.

MR. DIONNE: There's a new good question, is Wall Street corrupt, I mean just to take his point.

SPEAKER: Compared to what?

MR. DIONNE: We'll add that as a friendly amendment.

MS. BLANK: Wall Street is clearly a place that particularly attracts those individuals who want to make a lot of money and make it fast, and who are quite risk taking and enjoy that, and also quite entrepreneurial and who also work hard. So it attracts a group of people who have mixed sets of characteristics, some of which we occasionally label virtues, some of which we occasionally label vices, sometimes it's exactly the same thing depending on how you present it, if it's a virtue or a vice in different points in time. And, you know, Wall Street has been in a mode where the opportunities to make great wealth for a whole variety of reasons, some of which are internal, some of which are external to them, have been very present, and they have taken advantage of that, which is exactly what that particular set of institutions is set up to do.

And I mean I think this is – it is a lack of oversight in regulation that let a series of behaviors develop and go far beyond where they should have gone. And should there have been some internal regulation of this in terms of risk management – good management taking account of what the risks were that they were getting into and demanding better oversight in some ways, yes, they should have.

But should there also have been better external? I mean is this – you know, I have difficulty talking about this as absolute corruption, I mean it's, you know, in some ways it's like – it's a bubble that's sort of kept going much longer than it should have been allowed to.

MR. DIONNE: Bill, did you want to –

MR. GALSTON: Well, sure. I mean it seems to me that what we're seeing is a not so much Wall Street producing corruption, as changes in the environment producing unprecedented opportunities for the exercise of corrupt tendencies. And let me just tell you what I have in mind. First of all, globalization has globalized capital flows in ways that make accessible vastly enlarged sums of money.

Look at the way the securitization crisis has spread around the world, has sucked in capital into bad deals from all around the world. And related to that is the fact that certain sorts of financial instruments have empowered, have expanded the – what I will call the reach of greed.

I'm not sure that people on Wall Street today are inherently more corrupt than they were 50 years ago, but the scope for the exercise of corrupt tendencies has vastly expanded, and so we have the startling sums that we see before us.

Having said that, let me endorse a piece of your question. In the old days, 50 years ago, the center of gravity of the U.S. economy was industrial corporations that existed over a period of time in particular places. And so the leaders of those corporations had some incentives to be responsive to particular places and the people who were in those places. What is characteristic increasingly of the U.S. financial sector, and indeed, financial sectors around the world, is the decoupling of individual actors from any rootedness in a sense of place. They have become financially speaking citizens of the world, which means that the sorts of moral incentives that come from relationships with particular places are much weaker than they were 50 years ago, and that's a problem that we really have to grapple with, I think.

MR. DIONNE: Just one thing, Becky, I mean what you did have is, you know, a certain kind of deregulation allowed the creation of evermore exotic financial instruments, and there was this inexorable pressure to create more and more financial instruments actors and those markets themselves didn't fully understand turned out to be very dangerous, and that that could be seen as leading to a form of corruption, not that the entire process of trading is corrupt, but that in this case, there was something fundamentally wrong in the sense that you really shouldn't start trading instruments that neither you nor the people you're selling them to fully understand.

MS. BLANK: Yeah – no, I mean, you know, an environment essentially told people to ignore the risk analysis that in many other situations they would have been doing, you know. It's a form of corruption, right, but, you know, it's encouraging, you know, the inquisitive impulse over other more prudent impulses that I think also exist inside people, and it was an environment where acquisitiveness was encouraged.

MR. DIONNE: Go ahead, Bill.

MR. GALSTON: I live in a town outside – with a lot of Wall Street people. I don't find them anymore – I mean there's Wall Street that makes – I look at it from the New York Post is in my building, part of our company, page six of the New York Post is a good barometer of this stuff.

What it was, a lot of this is money, the excess of money, and the accesses which were chronicled in there of CEO's. And look, a company takes its lead from its CEO; the CEO is going to, you know, spend a million dollars on a birthday party or fly here or do that, some of it legal, not all of it illegally rating, but if they do that, they set a tone, as opposed to the executive that lives more modestly.

So I don't think any one collection of people is more corrupt than another. I do think that the vast sums of money led to – I mean there were a lot of people that bought big – I don't think they were corrupt, but they bought houses that I think – this is not poor people buying houses they can't afford, this is wealthy people buying houses that they can't afford, way above what they were. So there are these other temptations there. So I don't think they're anymore corrupt as a group.

And I'll tell you, living in this town, you see the effect of their lack of money in the town. The town has a lot of restaurants, they're not full, there are a lot of local contractors and stuff, I mean it really hits hard, the sort of real economy, very quickly, of all these other people that were kind of dependent on their money.

SPEAKER: But there is kind of – there is a kind of, I think, there can be a kind of Gresham's law of greed, and let me tell you what I have in mind. And I've heard CEO's talk about this. In circumstances in which the people who take excessive risks are rewarded, then other actors in the system put pressure on CEO's who would prefer not to take those risks to take those risks in the name of getting returns like the returns that the risk takers are getting.

SPEAKER: Yes, I agree with that. But then on the other hand, a lot of these problems, if you go down to the bottom, is a fundamental risk analysis that, like common sense would show, what was the Bearings Bank (phonetic) I was out in Asia when that happened, that kid basically bankrupted this old institution, and he did it in a very different way. He was doing front door operations to the back door and they just didn't check it. It wasn't this exotic thing, it was just a – because he was getting such good returns, no one checked, and I think that was probably --

I mean the interesting thing about Bernie Madoff is how many smart people – people a lot smarter than I am financially were, you know, just saw whatever the returns were, 16 percent, and asked no questions and lost a lot of money.

MS. BLANK: But what's striking, what has to happen in situations like this, it's not just one person like this kid doing things that you say are both stupid, crazy, and greedy.

SPEAKER: No, the CEO overlooked it and everyone overlooked it.

MS. BLANK: Multiple people have to be doing –

SPEAKER: Right.

MS. BLANK: -- somewhat stupid things, and you have to have a system where nobody stops and asks the question, and if there's any corruption there, it's that nobody stops to ask the question, why does the system keep people. Not only, you know, does it not encourage it, but it actively discourages anyone from standing up and saying, no, I won't play it this way, or you know, it's too much, and you know, that goes back to the whole cultural – issue again.

MR. DIONNE: How are we on time? I don't have a watch on me. Because I know that we're close to done.

SPEAKER: We're past.

MR. DIONNE: We're past time. I'm wondering if we can pick out three people to just make a quick comment and then allow – who's – you're near a mic, so you get the mic there. And the gentleman in the back has been very patient, if we could get a mic to him. And one more, oh, this gentleman over here. I'm sorry to everybody else, but you can come up and ask afterward.

MR. WILDAVSKY: Ben Wildavsky with the Kauffman Foundation in Brookings. I just wanted to quickly suggest, maybe we haven't spent enough time on the positive externalities of capitalism, and you can almost turn around the statement, or if there's time for this to be a real question and not a statement, you know, could one say the moral character actually improve, excuse me, that free market improves moral character. And, of course, what I'm thinking of is really two-fold; first of all, of course, we're here at an event sponsored by the Templeton Foundation. Well, John Templeton had a lot of money, which derived, as I understand it, from market capitalism.

The same is true with many great foundations in this country. And, of course, individuals also exercise, you know, huge amounts of philanthropy, a lot of those rich guys buying big houses also give a ton of money to charity.

But really, more importantly, of course, free markets have led to just immense wealth, we tend to forget this in the recent meltdown, immense wealth for societies. People get jobs. When, you know, Bill Gates creates Microsoft, he does far more for people than the Gates Foundation ever could do.

MR. DIONNE: Thank you very much. Just hold that thought. The gentleman back here, and then this gentleman on the left.

SPEAKER: So just a couple quick comments. One is to Becky's no one stood up on Madoff. Obviously, Harry Markopolis stood up yesterday and said if you took the whole SEC staff and flew them to Fenway, they couldn't find space. So I would argue that the institutions – the gentleman on the left was talking that Barack Obama was talking about the failure of parental institutions in Chicago. Actually we have a failure of corporate institutions, corporate control institutions in Washington.

Second, on Daschle, which the panel dodged, I was reading yesterday about Daschle, on a comment that people come to Washington, seeing it as a swamp, and after a couple years they see it as a hot tub, and I think that's what happened with Daschle. He took $20,000 a speech from America's health insurance plans, and he was opposed to single pair, which would have wiped out the health insurance industry.

And so I would ask the panel to consider that we, in fact, get rid of the market in health insurance and go to a system that every western modern industrialized nation has, which is single pair Medicare for all. Not only does that market in health insurance corrode moral character, it actually kills thousands of Americans a year.

MR. DIONNE: Thank you, sir.

SPEAKER: Just a couple comments. And it seems to me up front that the answer to this question is yes, from what I've heard. The reason is, when you get questions like compared to what, I have a hard time rectifying that because – and what I've also heard, that today the mechanisms are such that it allows greater volume. So is it that compared to – is murder not murder if it's a knife or an automatic weapon? I mean I'm hearing that it's a scope.

And if the question is about moral character, you know, at the basic level, it isn't, you know, did it effect a lot or a little, it still – was it right or was it wrong. So maybe it's a poorly phrased question, but if it's about moral character, I've not heard a lot of really discerning answers that tell me anyway that we have moved in the direction that really answers that question.

MR. DIONNE: Thank you. And so all your answers now will be discerning to close the discussion. Who wants – why don't we go in reverse order, Bill?

MR. McGURN: Could you just repeat the last part of your question?

SPEAKER: The comment is that, I – when, you know, a couple times I've heard, well, compared to what, and it really – to me, that's a faulty angle to take because you're – what you're saying is, was, you know, was – wrong because it killed a lot of people? Well, if one person was killed in that event, it still would have been wrong.

MR. McGURN: So your answer is that that sounds like relativism. I don't think that's what – that's certainly not what I meant.

What I meant is that when you grade it, it has to not be in the abstract, it has to be compared to alternatives and so forth.

My short answer is that the market encourages some virtues. You know, again, having lived in Hong Kong, where it's a little bit different from living in New York, it's really entrepreneurial. I mean I knew people that literally swam there, you know, through these waters and started up businesses and entrepreneurial.

You know a lot more real entrepreneurs because it's a smaller place. I think it encouraged those virtues and encouraged a lot of other virtues. And I think people don't appreciate what it takes to even start up a store or something like this. It's – really it's an act of faith in the future, it implies jobs again.

And going back to President Obama's book, which I'm reading now, he compares – he just has some language about the Indonesian markets that he remembers as a child, and this terrible area in Chicago where he was where there was I think one stationary store. And, you know, I think the area around didn't encourage those virtues, not necessarily that the people were deficient, but there was no law, you know, if you had your store, you're going to – there's just no – there's no law.

So I think – my short answer is, it encourages some virtues, it inflames appetites that might encourage some vices, and that the virtues that it encourages are necessary, but not sufficient for it to operate well, that we need other virtues that come from institutions outside the market, and we also need rules and incentives and the whole other thing. So I don't think there's a yes or no answer to all of those.

MR. DIONNE: Becky, on any of these comments?

MS. BLANK: So in small – relatively small markets where people are homogenous, and where you can rely on trust, trust – maybe not because you know them individually, but you come from exactly the same cultural background or the same religious background, you know the impulses on which they're going to act and how they're going to act, and so, you know, you can predict, as well as trust, those are the situations in which I think the structures around markets might matter less. And – but in the world that we're in today, in global markets, that world is just gone. You can't simply rely on individual virtue and you can't – and the whole conversation about individual character, in some sense, is an archaic conversation, not because individual character no longer matters, it absolutely does, but because individual character these days is a necessary, but not a sufficient condition for the good operation, good in a moral sense of markets and the avoidance of corruption, so that you have to talk about these larger structures, some of which are public, some of which you want to create in the larger society through social norms.

MR. DIONNE: Bill.

MR. GALSTON: Well, you know, to your question, first of all, I gave a very specific answer to your question, which is a lot like the answer you just heard from Bill McGurn, and that is, there is a wide range of virtues that go together to make up good character. There is no economic system that reliably promotes all of them. And there is no economic system that you can rely on not to create incentives and opportunities for the development and the expression of the vicious tendencies in human nature. What we know about markets, at least what we've learned from the past 300 years, is that they foster a range of what we've come to regard as virtues, and I think rightly so, including peaceableness and tolerance, the sorts of things that – was talking about.

We also know that markets have characteristic tendencies in the negative direction. And what we have to try to do through artful rules, and also – and also through cultural norms, and also, I would say, through the kind of leadership, exemplary leadership where individual character continues to matter, is to create the maximum feasible counterweights to what we know – the not so good tendencies of our societies are.

With regard to the question in the back, and this is where I'll end, there is an old story that is told of George Bernard Shaw at a dinner party, and you know, he was in a characteristically mischievous mood, so he turned to the rather – woman to his left and said, madam, would you sleep with me for a million pounds, and she was embarrassed, but finally smiled at him, yes, and said, Mr. Shaw, yes, I believe I would.

And so he went back to his soup, and at the next course, he turned to her again and said, madam, would you sleep with me for 50 pounds, and she drew herself up and said, Mr. Shaw, what do you think I am, to which he replied, we've already established that, now we're just negotiating about the price. Now, the reason I'm telling this politically incorrect joke is to suggest that whether or not you succumb to temptation depends a lot on the magnitude of the temptation that is offered to you.

And I think – I won't go so far as to say that everybody has his price. But if you live in an environment where the rewards to straying ever so slightly or perhaps more than slightly from the straight and true path are going up and up and up and up, and the swamp to which you referred I think is in that category, then it becomes harder and harder to resist, and people who would have remained honorable after their careers in public service, you know, drink feted swampy waters and become morally ill as a result.

And, you know, and that is – and that I think is very unfortunate, but it's true, and we all have to take counsel with ourselves and one another as to what to do about it.

MR. DIONNE: Well, I want to say three things quickly; first, I want to thank Templeton and Gary for suggesting this conversation, and also these three great panelists for a great discussion. And if you're really nice to him, Gary will tell you how many alternatives he's gotten over the last few months from people who said the question you really should have asked is.

And I just want to close with one of my favorite answers to the question in their little volume, which comes from John Gray, he said an economic system is good to the extent that it harnesses human imperfections in the service of human welfare. The choice is not between abstract models such as the free market in central planning. In the real world of history, neither has ever existed in the form imagined by its advocates. Know that your choice is between different mixes of markets and regulation, none of which will ever be entirely morally benign in its effects.

A sensible mix cannot be achieved by applying an ideal model of how the economy should work. Different mixes will be best in different historical context. But one thing is clear, a modern market economy cannot do without a measure of moral corrosion.

There are a million answers to this question in the naked city, that is only one of them, we've got three more, and I thank you all for coming.

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