ELEUTHERIA

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Message from the President

Francis Peddle

I

Western philosophy traditionally occupied itself primarily with the identification of the rational component of human nature and the articulation of the interrelationship between rational self-consciousness and the realm of sensible being. Equally, reflection on the nature of the universe focused on the search for and the inquiry into the first principles of the cosmos. The discovery of these principles, and their systematic elucidation, was thought to be the condition precedent for determining the order of obligations in the moral sphere and the foundation of rational institutions in civil society.

Modern, post-Enlightenment philosophy has been a sustained critique of the quest for first principles and of the laying forth of the essential nature of both personhood and the natural environment. The quest has been said to be futile, the foundations of ethics undiscoverable and the search for an essential core to human nature an unfortunate obstacle to revealing what is human and to what should constitute our actions in the private and public spheres. Modern discourse has therefore inverted the thought-world of classical Greek philosophy. Plato and Aristotle wished to conceptualize and portray the contingent within the necessary, the infinite within the finite as determinate, time within eternity and language as an epiphenomenon of thought. Modern philosophy, by absolutizing historical contingency, has expunged *ab initio* the validity of reflecting on the necessary or of supposing that the external world contains within it discoverable, objective truths.

While making thought functionally dependent on language, and in viewing the activity of thought as redescriptive, contemporary philosophy has had great difficulty in shedding the basic terms of the final vocabulary of classical metaphysics. The counter-absolutistic reflections of much of twentieth century philosophy liberally employ the contrastive terminologies of the older traditions while often making resolute but ultimately failed attempts, as in Heidegger and Derrida, to neologize their way into non-privileged and thoroughly historicized vocabularies. Therefore, even though thinking has been purged of the "limiting" *nisus* towards hoping to find absolute, unrevisable truths, it is still delineated in relation to such necessary truths as *inherently* "contingent". Literary anti-foundationalism flourishes in our universities often without recognition or understanding of the foundationalism that makes possible the reaction. The result is frequently neither coherent philosophical argument nor literary pieces of any perceptible quality. Much of this "anti-foundational" activity would be looked upon by many as relatively innocuous if it were not for the fact that it has *itself* become the "theoretical foundation" for much of the dialogue in contemporary institutions - educational, political, financial, and religious. Redescriptive vocabulary construction is now axiomatic. Its fluid referents and values form the putative substrata of institutional life in the various manifestations of policy development, legislative enactment, resource allocation and decision-making.

Out of the modern thought-orientation also flows a variety of equally dogmatic reactions. Religious fundamentalists, physicists turned Buddhists, philosophers become poets and mystics, and analysts who typically prefer a bureaucratized and austere distribution of social goods as a means to purge civil society of the tyranny of the *focus imaginarius*, are some of the many permutations. The "relevancy" of literary culture has become a basic problematic.

If the activity of thought is delimited to self-creation, novelty and the perspectival reiteration of the contingent, then this activity is by definition a continual effort to remove itself from the "relevant", if this is taken as something other than merely a abstractly subjectivized self-referentiality. Modern philosophy has not, however, become "irrelevant" simply because it is an abstract theoretical self-concern, since actual theoretical being *is* inherently practical and concrete, but because it has deliberately construed its relation to thought and the world as preeminently "non-theoretical". The result is that it can only *conceive* of its relation to the world *within* contexts, options and alternate strategies. But this relation is still primarily self-oriented, that is, it has onesidedly absolutized its practicality and is thus insufficiently stable within the community at large to count for anything other than yet *another* interesting *view* of things. Philosophy has become a weakly competing perspective within a world where the formation of such perspectives is determined primarily by socio-economic externalities. The internally generated thus pre-determines its own irrelevancy.

Speculative philosophy, in contradistinction to both modern (post-Enlightenment and contemporary) and traditional philosophy, neither vacates the theoretical field nor takes it in abstraction from the practical. Further, speculative philosophy recognizes *permanent* substrata in human nature and self-consciousness and *actualizes* the presence and recognition of such substrata in historical contingencies. And, it further contextualizes the attempt in historicized reflection to deny the existence of these substrata as itself a self-absolutizing and negative reductionism. Speculative philosophy therefore demonstrates its relevancy in the actual working out and articulation of the pervasiveness of speculative principles in such fields as law, economics and socio-political / economic organization.

This issue of ***ELEUTHERIA*** contains two essays on the interrelationship of the theoretical and the practical in speculative thinking. The first considers he work of Albert Schweitzer and Henry George with respect to integrating ethical individualism into a concrete program of fiscal and economic reform based on George's idea of land value taxation as the foundation for the organization and maintenance of delivering social or merit goods and services. The second essay applies first principles to the elucidation of a sound program of portfolio management and investment. These essays have not been randomly juxtaposed, as is the prescribed format for many literary productions, but are internally connected. This connection is to be found in their *speculative content*. By taking the manifestations of the modern "non-theoretical" relation to contingent existence as itself an implicitly "theoretical" position, these essays demonstrate that theory and practice can only be meaningfully thought about and practised when neither the historical nor the permanent *as such* are taken as the fundamental condition of mental and physical life.

II

On October 24th the Institute held its Third Annual Meeting of the Board of Directors. Dr. Lowry was re-elected to his position as Vice-President and Dr. McCormick remains as a Director. I will continue in the offices of President and Secretary-Treasurer.

Membership dues for 1991 will remain at fifteen dollars ($15.00). Any donations received at or in excess of fifteen dollars ($15.00) entitle the donee to a membership in the Institute.

The Board noted that Dr. McCormick was named a Fellow of the National Endowment for the Humanities, Summer 1990 Institute in Aesthetics, at the Johns Hopkins University in Baltimore. He also was able to pursue further research at Freiburg in late summer thanks to the Alexander von Humboldt Stiftung. Besides giving papers at several scholarly meetings this Fall, Dr. McCormick will return to Japan in November to participate in the tenth Tamiguchi Symposium on Eco-Ethica in Kyoto and Tokyo. The sequel to Dr. McCormick's "Understanding Modernity" which was in the previous issue will appear in the Spring, 1991 instalment of ***ELEUTHERIA***.

Specative Philosophy and Practical Life

James Lowry

In a world as imbued with the self-evidence of empirical truth as ours is, it can seem equally self-evident that theoretical activity is at best merely abstract and at worst pernicious. There is an intellectual abyss between the stories of how Thales on the one hand fell into a well while stargazing and on the other, due to such stargazing, made a fortune by cornering the market for olive oil, and the marvellous image of Dr. Johnson sacrificing his toe in seeking to refute the Rev. Berkeley by kicking a stone. It is virtually impossible for modern people, mesmerized as they are by the dogma that scientific inquiry is self-evidently the normative mode of truth, to imagine that theoretical - that is, *speculative* - philosophy could have any insight of its *own* into the nature of practical life. And, indeed, this naive certainty that it cannot, is backed up by the sad spectacle of university philosophy departments trying to gain respectability by offering courses in formal, nee mathematical, logic for the espoused purposes of teaching students how to "think" - the rationale being that such subject matter, being merely "instrumental" and without content of its own, will help them in business, science, and literature.

Long ago Aristotle pointed out, as clearly as can be, that the paradox of speculative philosophy, what he called "first" philosophy, is that it is the least useful but most necessary form of knowledge. In making practical life a higher priority than theoretical life, moderns have not only eschewed the life of the mind but have made the "consumer" quest of the body an end without limit. In so doing our world has become anti-theoretical in the dogmatic confidence that pragmatism - the endless process of utility - can be an adequate theoretical form. The corollaries to this view are *in theory* - the confused dogma that looks on the precision of mathematical formal structure as the "nature" of nature, and yet sees truth as statistical probability; and *in practice* - the equally confused parallel dogmas that: (i) majority opinion should prevail, even as each and every opinion, however ill-conceived, should, as a quantum, be regarded as having equal weight and validity; (ii) nature as a result of random events may nevertheless be scientifically manipulated; (iii) aggregate market forces can be the linchpin of a freely individual political life.

We are now experiencing the results of this naive empirical mentality. For all the sophistication of its numericity it is a failure in that in the end reality, the actuality of being, is not reducible to quanta and chance. The *actual* world is as qualitative as it is quantitative and as teleological as it is processive.

The paradox of Aristotle's statement about the uselessness of philosophy is that its necessity is due to the logical dependence of practice on theory. A poor theory must have a poor practical result. But a practice that is useless is so just because it is theoretically unsound. This *interconnection* is what must be understood. The helpfulness of speculative philosophy in making possible successful practice lies not in philosophy's usefulness as a means, but in the *paradox* that because speculative thinking is an end in itself it can be the one sure basis for successful practice, even though such practice is always *epiphenomenal* to speculative thought.

The epiphenomenal relation of praxis to speculative philosophy is due to the fact that the determinate nature of speculative thought *parallels* conceptually the universal ideality that forms the paradigmatic structure of reality *within which* being has its endless probable temporal instantiations. In religious language it is the prevailing of providence; in Aristotle's language it is the priority of actuality over potentiality; in our own time it can be understood biologically as the primacy of recursion in replication wherein possibility is contained in an ideal structure.

The following essay, “On Actuarial and Performance Measurement in Relation to the Management of Pension and Other Institutional Investment Assets”, is an example of the power of speculative philosophy in understanding praxis. Speculative philosophy has for itself no particular interest in the practical art of investing or in the laudable aim of providing workers with adequate pensions. Yet it happens to be the case that speculative philosophy can have a more accurate insight into how these goals are achieved than any amount of purely economic theory. The fact that it is just such an abstraction - known as “Modern Portfolio Theory” - that now drives the world's financial markets should be more of a cause for concern than it is. We may reflect on the wonderful irony that the formerly communist world is now prepared to go to the trouble of democracy in seeking to embrace these very markets as a sure source of economic bliss not collectively achieved. The further irony, not so wonderful, is that by viewing democracy as a means for an economic end, rather than as an end in itself, their turn westward embraces yet another form of collectivism just when the market-driven West is unwittingly turning eastward, seeking a unity with Nature not found in the religion it has given up for economic ends. I hope readers of ***ELEUTHERIA*** may find that the essay which follows will shed some light on the confusion involved in believing that economic activity can be economically understood.

On Actuarial and Performance Measurement in Relation to the Management of Pension and Other Institutional Investment Assets

Introduction

A number of difficulties confront the layman in trying to assess the validity of actuarial and performance measurement advice as they relate to the professional management of investment funds. The two chief ones lie in first bringing to light the assumptions upon which the conclusions of their advisors are based, and then in judging their advisors' claims to reasonableness, reliability, and sophistication. During the period since World War II the size of pension fund and other institutional assets the world over, and particularly in North America, has grown enormously. So great has been this growth that institutional money managers now virtually control the trading of securities on major markets. This control in turn, since it accounts for both the volatility and the perceived wealth of the free world's financial markets, has a powerful influence on the economic health and policies of governments. It is, therefore, not an exaggeration to point out that in order to truly understand the present financial character of the global economy it is necessary to understand the theoretical underpinnings of institutional investment. The most important influence on contemporary investment practice has been that of what is commonly termed “Modern Portfolio Theory”. This is a theory that resulted from academic work, primarily at American universities, aimed at quantifying the relation between investment risk and reward in order to precisely predict performance parameters. Impetus to these studies was given by the need to protect pension fund assets from the increasing ravages of the inflation which has characterized the post World War II period. The result has been a conjunction in the professional management of pension and other institutional assets, such as those under the administration of insurance companies and endowments, of actuarial, performance measurement, and portfolio management services.

The techniques for quantifying investment assets made possible by Modern Portfolio Theory has greatly facilitated this conjunction of services by providing a common basis for computations specifically relevant to the provision of these services. The further fact that modern science is based on quantitative modelling has given today's investment professionals the confidence that can only come from the sense of being in the mainstream of culturally accepted norms. The idea that investing can now finally be "scientific" has acted like an elixir to the investment community. That this elixir might not be the nectar it appears to be has not as yet been grasped, simply because the grasping of it requires an education that is more comprehensive than that available in our present university system with its bias towards quantitative forms of knowing.

I

The Putative Authority of Modern Quantitative Assumptions

In coming to grips with the world of modern "professional" investing it is crucial to focus on the relation that actuarial science, performance measurement, and portfolio management bear to one another in the management of investment assets in order to understand *why* the assumptions of modern actuarial science are *also* those used in measuring the performance for which modern portfolio management techniques can claim responsibility. The interrelation of the three activities is straightforward. The actuary sets the goals which must be met to meet liabilities. The portfolio manager manages with a view to meeting these goals. A measurement service then determines whether the performance of the manager has met the actuarial goals. Obviously, it is essential that for the services to complement one another they ought to use the same criteria and frame of reference. The way this is done is through statistical techniques in which goals, risk and reward, and historical and projected economic data are normalized by quantification. It thus happens that the major assumptions of modern actuarial, performance measurement, and portfolio management services are the *same*.

The Psychological Assumptions

- Safety lies in a consensus viewpoint.
- Deviation from the majority is dangerous.
- The present will be like the past.
- To be passive is less meritorious than to be active.
- Expertise is greater, the greater its sophistication.
- What does not require judgement is objective rather than subjective.

The Substantive Assumptions

- Scientific certainty is the most sophisticated form of certainty.
- The most sophisticated science is that which can be numerically represented.
- Numbers do not lie.
- Mathematical truth is probabilistic.
- The most certain form of probabilistic truth is statistical.

The result of putting together the two sets of assumptions is the application of statistical analysis to real life situations in order to understand - to find the "truth" of - these situations.

It then follows quite naturally that actions will be based on a *statistical* understanding. In other words real life activity will begin to conform to the original assumption: namely, that the truth of real life is statistical. Understanding the circularity of this process is the *first* step in coming to grips with what it means to accept statistical truth as valid.

The Nature of Statistics

It will perhaps be useful at this point to list the fundamental principles which underlie statistical calculations and to state their equally fundamental limitations as a prelude to further discussion.

The fundamental principles of statistical calculations are:

- Statistics are purely quantitative - all data must be reducible to quanta.

- Statistics deal only with probability - certainty is high probability.

- Statistical error is a deviation from a norm.

- The statistical norm is what occurs the most often.

- Statistical results are only aggregate results.

A number of subtle but important *limitations* are involved in statistical calculations. The two most important are:

- The deviations at the extremes are systematically eliminated.

- The individual pieces of data are reduced from actuality to probability.

If we combine the fundamental statistical principles with their equally fundamental limitations we come up with what appears to be the most fundamental statistical law: the Law of Large Numbers. According to this "law" all quanta will, given enough time, revert to their mean. In other words the final measure of quantity is to *return* from deviation to normality. This *same* principle in physics is, by analogy, the idea of entropy whereby all aggregate units of energy will, given enough time, supposedly disperse evenly into space.

The Intuitive Appeal of Statistical Thinking

The plausibility of statistical thinking lies in its intuitive appeal to common sense and the desire to conform. Attachment to the allure of statistics can be found as much in academic and investment circles as among the general populace in so far as the latter, though more slowly than the former, have moved away from religious to scientific principles. Psychologically, this move has been due to the perception that science is closer to "real life activity" and thus more certain.

When, however, the plausibility of this certainty is translated into theoretical constructs, a network of conclusions based on statistical calculations is produced which *appear* to have more than probable validity. *In fact*, they become substitutes for the uncertain probabilities of which they are the result.

The best way to understand this mixed chain of quantitative reasoning and calculation lies in the recognition that a model is the *result* of specific inputs which are *themselves* only proxies for non-quantitative units, be they events, opinions, or people. A model is an ideal construct that is several removes from that of which it is a model.

A mortality table may serve to illustrate the point. Here average life expectancies are used to determine insurance premiums for various categories of insured persons. The tables indicate what will generally happen for each category. They cannot, however, indicate what will happen in any individual instance. There will be persons in each category that will live longer or shorter lives than the average. The fact that the mortality table takes these *deviations* into account from a statistical point of view by "standardizing" them does not alter the "real life" fact that exceptions will occur. Nor is it possible that the long life or short life just "given enough time" will become average. Life and death have a *quality* which *transcends* probability.

II

The Identity of the Actuarial Model for Liability Management and the Performance Measurement Model for Investment Returns

The Actuarial Approach is inherently conservative, and tends to focus on the liabilities to be paid rather than on the assets to be used for such payment. Long-term liabilities are somewhat difficult to gauge with certainty because of the fact that they are often subject to various changes: for example, life expectancy may change; rates of inflation may change; benefits may be renegotiated.

Despite the uncertainties involved in quantifying liabilities, actuaries base their advice solely on their assessment of future liabilities. This assessment necessarily requires a lot of guesswork. The usual procedure is to develop a quantitative model in which the various guesses or assumptions about future inflation rates and future return rates for various classes of assets are used as inputs to produce an asset mix which will produce the capital required to pay the projected liabilities.

The most important aspect of this modelling is often lost because the model itself appears to be very sophisticated. This lost aspect is the fact that both the inputs and the results are only guesses. What makes the model *seem* sophisticated is that the mathematical calculations which produce the results *from* the inputs are complex, precise, and accurate. This precision can easily lead one to *believe* that the results are also precise and can be relied upon to be purely objective. The inputs, however, have no such precision. They are either the result of selected historical extrapolations or a combination of historical extrapolations and judgement - in other words, the inputs into actuarial models contain a large element of subjectivity.

The conclusion that must be drawn from the relation of the inputs' "subjectivity" to the "objective" output is that the results obtained from mathematical modelling are *themselves* extremely *uncertain*. Numerically they are precise. But they are the result of initial judgements which do not have mathematical precision. These judgements *appear* to have such precision only because they have been transformed *into* mathematical values. The results are, in the end, also imprecise in that they themselves are guesses. They are *guesses* because they are actually predictions; that is, hypothetical cases which may or may not occur.

All of the above boils down to the fact that the results of any actuarial model are predicated on the *assumption* that precision is equivalent to probability. *But, probability is not certainty*. The difference between the two is not quantifiable, simply because guessing "rightly" consistently requires judgement, while guessing rightly inconsistently is merely a matter of luck.

The Necessity for a Measure in Statistical Calculation

Caught between the pillars of judgement and luck, both of which lie *outside* the realm of normative probability as deviations, actuaries must look for a measure upon which to determine certainty and objectivity. This measure must be quantifiable, and *cannot* require either judgement or luck.

The measure which actuaries feel increasingly comfortable with is the market liquidation value of assets. This value *appears* to be objective because it is a *consensus* value which is also an "aggregate" value. Even the language which is used gives one a sense of comfort. The "market" is termed the "universe" which is made up of lesser aggregates or "portfolios", which in turn are made up of lesser aggregates or "asset classes". These classes are further subdivided into categories such as "industries" for stocks and "maturities" for bonds. These categories are then subdivided until one arrives at the individual securities.

The Market Liquidation Model

Conceptually, the model which is normative for market liquidation value is an hierarchical one in which the higher categories are the larger aggregates. The logic of this kind of conceptualization is that market value is determined more by the relation of the higher categories than by their individual parts.

This hierarchical or "top down" way of looking at "value" is both easy to understand and to translate into mathematical or quantitative symbols. This translation appeals to common sense in that so-called "trade-offs" between risk and reward can be quickly and seemingly objectively identified.

In this case "reward" can be translated into return as determined by market liquidation values. "Risk" can be translated most easily as the volatility of that return when that volatility is quantified as a relation of discrepancy between the "parts" of the market relative to the "whole" of the market. It is important to understand that volatility seen in this way has an *internal circularity* or self-referential quality. The whole of the market at any given point in time is used as an *absolute* measure; while at the very *same* time a part of this market whole is measured *relative* to the whole of which it is a part.

This way of looking at the measurement of return has a number of corollary assumptions, the most important of which are: (i) diversification lessens risk; and (ii) returns which are above or below the mean cannot be sustained indefinitely. Deviations from the mean are, therefore, standardized in such a way that any exceptions are *systematically excluded* from the model by including them as low probabilities.

The Market Liquidation Model as a Circle of Self-Reference

Measurement using the aggregate market as its *own* value, is by virtue of the *contradiction* contained in such self-reference, *most* susceptible to quantification. The reason the contradiction is easily overlooked lies in the conceptual nature of quantity itself. "Quantity", as a *concept*, has a particular characteristic that sets it apart from *all* other concepts. This characteristic is that it has no opposite. Any number or quanta is *indifferent* to any other number. For example, the number four has no opposite category. It is simply four. Although quanta, as pure quanta, have no opposition, quantity, *as such*, may be said to have an opposite.

This opposite is the *concept of quality*, the fundamental characteristic of which is that it has an opposite. For example, the quality of "positive" only has meaning in relation to "negative". In mathematics the necessity for quality is *masked* by the fact that mathematical relations are *only possible* when qualitative (i.e. non-quantitative) characteristics such as "plus" and "minus" are introduced. Contradiction is avoided by the process of cancellation or the realization of a null value or zero. Plus five (+5) plus minus five (-5) equals zero (0).

Meaning in the Market Liquidation Model

It is the introduction of quality that gives *meaning* to quantitative relations. These relations in turn become a *proxy* for meaning in the relation of parts to whole, which is, itself, *not* a quantitative, but a qualitative relation. This whole series of masked qualitative differences in quantitative form may *seem* to be objective just because they appear in quantitative form. Yet quantitative data must *always* be interpreted. They do not speak, as it were, for themselves. The necessity for "interpretation" of the results of quantitative operations leads us back to the beginning of this analysis of aggregate measures: namely, to the fact that the *initial* inputs are always quantitative approximations based on judgements about (i.e. interpretation of) data that are *not originally* in quantitative form.

The Subjectivity of the Market Liquidation Model

Understanding the nature of quantitative relations, when combined with a realization that the quantitative inputs of actuarial models are highly subjective, should cause anyone to *question* both the validity and value of present actuarial assumptions, procedures, and conclusions, as well as the performance measurements and portfolio management techniques that are based on these assumptions, procedures, and conclusions.

Perhaps the best way to formulate these doubts is to consider what can be the meaning and implications of "diversification" and "risk". Then we may reconsider what can be meant by "return".

The principle of diversification is basically a *derivative* of the law of averages, which says that ultimate safety lies in the measure itself. In market terms this means that since the market is itself the absolute measure of return and risk it is also the absolute measure of safety. Since it follows that the market is also the ultimate form of diversification, it also follows that the greater the diversity of investment, the less the risk. In other words, the closer a portfolio resembles the market the safer the portfolio. This is the principle which underlies the idea of an "index" fund, which is an attempt to approximate the market as closely as possible without owning every single security in the market.

Since it is impossible to quantify diversity as such, it is difficult to measure it in itself. The inability to measure diversity exactly as a quantity can be overcome by translating risk from diversity into "volatility" of returns. Volatility is, however, meaningless if it is not measured *against* an absolute value. This value, as one should expect in a statistical model, can only be the market itself. If we take the market as a self-reference point, we can then measure the deviation of any part of the market from the market. This deviation as a quantity is popularly known as "beta".

Armed with the concepts of diversification and risk as *quanta*, it is then possible to measure the performance or return of any group of assets relative to the market. This is, in fact, what performance measurement services seek to do. It turns out that the actuarial model is *identical* to that of the performance measurement services. The reason is that the quantification of assets and liabilities *relative* to market liquidation values at any point in time can *only* be translated into a statistical model in *one* way. The configuration of the statistical model is *not* a matter of chance.

Unfortunately, the limitations of the model as a valid and precise measure of investment results are *also* not a matter of chance. These limitations can be found in any statistical form in which the measure is self-referential. *Nor* should this self-referentiality be taken as having an alternative. The objective nature of a statistical model depends *solely* on this self-reference.

There remains, nevertheless, the problematic that the inputs of the model must be the result of a *judgement* which is not quantitative in origin; that the results of the mathematical precision of the calculations within the model are only *hypothetical*; that these hypothetical results must be interpreted and *retranslated* into the original non-quantitative form of the original judgement; and that the calculations themselves demand a qualitative mechanism in order for the quantities, which have no inherent contrariety, to be related to each other *as if* they were quantitative.

All of these difficulties seem to be merely conceptual in nature until it is realized that it is just the *forgetting* of the conceptual assumptions which give to statistical modelling its perceived clarity and validity.

The Qualitative Nature of Investment Returns

For the sake of clarity let us consider more definitely in the context of investing the idea of quality in relation to return. Then we may consider again the nature of asset mix, portfolio risk, and diversification in the management of present assets to pay future liabilities.

One often hears the phrase "quality of earnings", but what does it mean? It seems obvious enough that regardless of how I earn a dollar the dollar itself is equal to any other dollar. A dollar won in a poker game or at the race track or playing Russian roulette will buy just as much candy as a dollar earned by investment in a Canada savings bond. Likewise, a dollar earned by speculating in a penny mining stock with no assets and negative working capital will always equal the buying power of a dollar earned by investing in a blue-chip stock. Yet intuitively we think that a dollar earned safely and surely is different from one gained at great risk. In other words, while each dollar is quantitatively the same, it is also different by virtue of the way it was generated. This difference is qualitative.

It is important to understand this distinction very clearly. If it is not comprehended what is implied by it, it will seem quite acceptable to try and quantify the risk by reducing it to the category of volatility as in the ordinary statistical model. To do so, however, is to immediately forget that the two dollars were *different* by virtue of the fact that they were *generated* differently - that they were results of two quite different sets of events. The results were identical - one dollar with which to buy candy - but they were gained differently.

While it is plausible to try and reduce the processes which led to the results into quanta, the procedure *misses* the point that the desire to do so is generated by the need to eliminate their qualitative differences. Another way to grasp the point is to question whether the volatility of returns relative to a self-reference system, in which the part measured is *equivocated* with the same part as part of the whole, is the only way to understand risk. The fact that the answer must be negative should lead one to suspect that the statistical concept of risk may be more limited than what is intended to be measured statistically.

Risk of return can depend on many factors other than volatility relative to monetary market prices. There can be political risk; risk associated with the competence of management; risk associated with the capital requirements of a business; risk associated with reinvestment in the future. Each of these risks are specific to each security. They cannot *in their individuality* be aggregated. They can only be aggregated in so far as the securities are not seen as specific. The ideality of the model, in fact, regards the specificity of each security as in a sense unknowable, and, therefore, as the least important component of return. Thus it is that diversification is claimed as the ultimate way of reducing risk. Diversification does not require knowledge of individual securities. It is a purely deductive principle in so far as it is merely a quantitative requirement. Diversification is in actuality a statistical substitute for knowledge. Simply put, it is *sophisticated ignorance*.

To call diversification "sophisticated ignorance" might seem only rhetorical if it were not for the fact that the statistical modelling, upon which the advice of actuaries and performance measurers is based, leads inevitably to the conclusion that "unsystematic" or security specific risk is the least important component of portfolio returns; a conclusion which makes the claim that asset-mix is the key to successful investment.

If it is recommended that the statistical model is hierarchical in nature on the basis of the size or quantity of the aggregate relative to the ultimate aggregate or universe or market, it will be easily understood why the major risk to a portfolio is claimed to be systematic or market delineated. The biggest aggregates which make up a portfolio are its asset classes. Thus it is the volatility of these asset classes that is said to contain the greatest risk. The reduction in risk is achieved by diversifying or weighting the classes, and, as well, the components of the classes. The *assumption* is that diversification will then tend to eliminate the risks which are specific to a particular security.

III

The Assumptions of Aggregate Thinking

The implications of this aggregate way of thinking are worth examining, since it is just this very way of thinking that *claims* to give credibility to the techniques and actions of the majority of our professional actuaries, performance measurers, and portfolio managers. The most important is that investment must be thought of as primarily an exercise in "macroeconomic" forecasting. Prediction of interest rate movements and macroeconomic growth become the most important factors in predicting which asset classes are likely to do best. These predictions are, unfortunately, the most difficult to make correctly. This is because they require the accurate understanding of and judgement about the relation of the greatest number of variables. The problematic of economic prediction for investment purposes is *masked* by the way in which its assumptions reduce it to circularity. These assumptions and the phenomenal aspects of their content are as follows:

(A) **Description as a Substitute for Knowledge**

The difficulty involved in making macroeconomic judgements about the future performance of asset classes tends to be masked in two ways by actuarial and performance measurement services. The first masking effect occurs in the statistical model itself wherein the seemingly objective precise results depend on subjective inputs. This point has already been discussed.

The second masking effect is psychological in origin in that it involves the substitution of consensus judgement at any point in time for knowledge. This point is somewhat complex, but should be formulated carefully as it shows up important contradictions in the general attachment of actuarial and performance measurement services to statistical modelling.

Accurate forecasting of the market movement of any asset class is generally agreed to be impossible on a long-term basis. It is not, however, difficult to give a market liquidation value of any asset at any given point in present or past time. The reason for the difficulty in forecasting is the plethora of variables which arise from the myriad motives, beliefs, and judgements of countless individuals in countless different circumstances. From a statistical point of view the mean is the measure. The mean is also the majority view in so far as it is the point toward which everything tends to congregate.

Statistical knowledge is actually a "description" of how the majority of quanta aggregate around the mean. This *proxy for knowledge* is quantitative in so far as no judgement is involved in depicting the result of countless individual judgements. Knowledge is ordinarily associated with fact and further with truth. Truth is usually considered only an opinionative claim, unless it is also a fact. It is upon this association of fact with truth that the whole edifice of empirical science is built. From this set of relations it is easy to see how statistical description might be thought to be factual and, therefore, true and objective. It is only a short step to *inferring* that such factually objective truth is knowledge.

(B) **Truth as a Quantity**

At the point that statistical description is thought to be knowledge it *seems* only a matter of common sense to regard the association of the majority of quanta in a model as the truth of the model. This can be said another way by simply declaring the majority of opinions to be true. If we translate this chain of rationalization into investment terms the following occurs.

The "market" represents the consensus view. This consensus view represents the majority, which in turn sets the prices which prevail in the market at any one time. These market liquidation prices are the "true" value of the securities bought and sold in the market. Market liquidation values are, therefore, both the measure of performance and of actuarial value. As an aggregate these values represent the highest probability of value at any given time since the aggregate represents the best representation of the factual, "real-world" estimate of value.

At this juncture it should be noted that this consensus opinion does not represent any one judgement, and cannot be attributed to any one person. It *seems* to be objective because no one is responsible for it. It does not require a judgement to decide if the consensus view is correct, only an acknowledgement of it as a descriptive fact.

(C) **Actions Based on Quantitative Truth**

It would appear that actions which are based upon a consensus judgement would themselves be free of subjectivity in so far as they participate in the truth developed by consensus. It is not coincidental that such actions are the ones which actuaries regard as the most reliable. The two most important are to "rebalance" a portfolio frequently and to use "pooled" funds.

Rebalancing is the adjustment of the asset mix of a portfolio to conform to the market of which that portfolio is necessarily a part. Pooled funds are portfolios composed of a highly diversified conglomerate of individual securities. The idea of combining the two is quite simple from the point of view of aggregate thinking. Rebalancing assets which are highly diversified will give the closest approximation to market diversification. It will make the portfolio approximate as closely as possible the market at any given time. By such action it is possible to eliminate all but market risk.

With such an ideal the subjectivity of judgement can also be eliminated. Expertise is no longer a function of correct anticipation, but of a *sophisticated conformity* to aggregate data which represents the mass of investment opinion. *Quantification and the elimination of judgement*, as we have already seen, go together. The elimination of judgement requires the elimination of qualitative distinctions. Statistical truth and conformist action are each a function of the other.

The Identity of the Actuarial and Performance Measurement Model as a Contradiction

The ideal relation between statistical truth and conformist action points to the fact that the implementation of any action must be an *ex post facto* action. To understand the full implications of this relation between aggregate thinking and its practical application, both conceptually and in the context of investment policy and performance, it is necessary to consider *how* the actuarial and performance measurement model treats *time*.

The easiest way to grasp such treatment of time is to recollect that the need to predict future values became transformed into the description of the market as a consensus truth. This transformation was due to the fact that the number of variables needed to determine the future were too numerous to make predictions consistently possible. The consensus truth of the market was the market liquidation value "at any given time".

It seems straightforward to regard the market liquidation value at any present time as the least arbitrary value just because it is a quantum requiring no judgement. This is because it has *already* occurred. It is straightforward *only* because the present is *confused* with the past and future. Firstly, market liquidation value is constantly changing. To stop it at "any given point in time" is, in fact, quite arbitrary. Secondly, the moment time is thus suspended, the market liquidation value determined is past not present. Whether it will be present at any given time is a statement about the future. But it is just the *inability* to predict the future that led to the desire to suspend time in the first place in order to get a present value. Such is the *conceptual contradiction* involved in market liquidation value taken as a true or non-arbitrary value.

In the context of investment policy and performance, the use of market liquidation value only indicates the past. It does not imply a necessary connection to the future and, therefore, cannot suggest any necessary present action. Continual efforts to approximate market performance *defeat* the whole purpose of both actuarial and performance measurement services as arbiters of investment management.

Both services seek to relate future events to the present. Both the actuary and the performance measurer wish to make sure the present conforms to the future. The actuary's job is to ensure that future liabilities can be met by present assets. The performance measurer in his turn seeks to show how present assets can be equal to future liabilities. Both specialists see themselves as doing equally important but complementary jobs - jobs that form the parameters within which investment managers should work.

If the ideal is a market model based on the law of averages, it is difficult to see how either the actuary or the performance measurers can provide any advice other than the *hope* that the "market" in its collective wisdom will produce from the present an acceptable future. The moment that either the actuary or the performance measurer step out of the past into the present or future their expertise becomes no greater than that of an amateur. This is not an unfounded assertion, but the perfectly logical result of their own assumptions.

Conformity to market liquidation values is, simply put, conformity to the past. What will happen in the future cannot be inferred from the past *in so far* as it is delineated in quantitative form. The fact that both actuaries and performance measurers try to use their statistical models for prediction merely contradicts their own principles. This contradiction is actually *confirmed* by the fact that the academic work which *originally produced* the statistical market liquidation value models used by both actuaries and performance measurers *also maintains* that it is impossible to infer the future from the past.

Corollaries to the Market Liquidation Model

The two theories which parallel the market liquidation model as the determinant of security values are the "random walk" and "efficient market" hypotheses. The random walk hypothesis is based on statistical theory in so far as it states that the *prediction* of returns for any *one* security is impossible. Since *only* aggregates can be properly quantified, it follows that the movement of market prices for individual securities is random. This assumption is the *market equivalent* of probability theory in which events are regarded as discrete non-deterministic phenomena. To illustrate the theory we may use the example of flipping a coin. Suppose the coin has a side marked X and a side marked Y. No matter how often you flip the coin it cannot be known which side will turn up. Given enough flips (i.e. time) the highest probability is that an equal number of X's and Y's will result. It is also possible, though very improbable, that only X's or Y's will turn up. The point to grasp is that each individual instance is unpredictable. Predictability is simply a function of the Law of Large Numbers or the general reversion to the mean: in this case an equal number of X's and Y's.

When applied to the stock market, this randomness of individual instances leads to the conclusion that selecting individual securities is a *matter of chance*. According to the random walk hypothesis it is as efficient to select individual stocks by throwing darts at a newspaper containing stock tables as it is to choose on the basis of analysis. This hypothesis fits in well conceptually with the idea that selection of the asset-mix is more efficient than stock selection. The risks associated with individual stocks are best avoided, since they are random, through diversification.

The second hypothesis, which also parallels the idea of a market liquidation model of values, is the so-called "efficient market" hypothesis. This hypothesis assumes that the market values of securities at any one time incorporate all of the information available for decision making by virtue of the fact that the market represents the input of all available market participants. This hypothesis is a *theoretical description* of the idea that the *collective wisdom* of the market is the *measure* of truth. It thus ties in neatly with the assumption of the market liquidation model, which substitutes consensus for judgement.

Problems with the Market Liquidation Model

The assumptions and contradictions of the market liquidation approach to investing are *necessary* aspects of aggregation in statistical modelling. The problems which arise from accepting the conceptual framework of aggregate thinking are not *merely* theoretical problems which can be overcome by improving the modelling process. They are problems which can be overcome only by thinking through the assumptions and contradictions in order to arrive at a theoretical framework which is both *more accurate* and *more rational*. The importance of doing this lies in the realization that theory is not a derivation from practice. Practical action is only the instantiation of theory. They are each a side of the same coin. Each is a function of the other. The *necessity* of the relation is what *underlies* the essential *unity* of means and end, of process and result, of argument and conclusion. When theory and practice are separated, ends, results, conclusions become abstract and irrational. They are actually, as separated, no longer ends, results, or conclusions but only unconnected events and assertions indistinguishable finally as either means or ends, processes or results, arguments or conclusions.

IV

A Better Way

Aggregate thinking parallels statistical description as a substitute for knowledge. It accepts the consensus as the most probably true. While statistics treats individual events as random, it regards them as also determined when taken as aggregates. While it maintains that there is no necessary connection between past and future events, it also assumes that history will repeat itself in aggregate form. Avoiding risk is avoiding individual events and judgements. Risk is reduced to aggregate risk. In investment parlance unsystematic risk is diversified away, while market risk is accepted as inevitable. Such is the position of aggregate thinking, which, when *rationally* examined, can only be said to be yet another form of *sophistry*. It has the appearance of thought but it is unthinking.

The Logic of Implementing the Market Liquidation Model

If we draw out some of the logical consequences of such sophistry in practical form, the point can be more imaginatively made. If it were "really" true that reversion to the mean is the measure, the following points about investment might be accurately made:

> The best companies will eventually become mediocre; their stock prices will decline.
>
> The worst companies will eventually become average; their stock prices will rise.
>
> Bonds with the highest safety will eventually become less safe; their prices will decline.
>
> Bonds with the lowest safety, junk bonds, will eventually become safer; their prices will improve.
>
> Managers with the lowest returns will eventually have higher returns; managers with the highest returns cannot sustain them and will eventually show average returns.

Clearly, any fund which wanted to be successful would use the law of averages to its benefit and hire the poorest manager to buy a highly diversified portfolio of the lowest quality bonds and the worst run companies. The only decision to be made would be to replace both the manager and the portfolio when they improved with a poorer manager and a lower quality portfolio!

Risk and the Creation of Wealth

The logical consequences of modern portfolio theories based on market liquidation values seems silly in the above form. Yet these are precisely the *consequences* which should occur if a sound qualitative knowledge of the original inputs of statistical modelling, the companies themselves and the issuers of debt, is considered least important. To so consider them is to forget that it is the *ability* to produce goods and provide services that *creates* wealth. And it is the creation of wealth that makes possible the profitability necessary to enable both lending and borrowing.

The greatest risk in investing is not market risk but ignorance of *how* wealth is created. Wealth is the result of a process in which reason, imagination, and will is forged together to provide needs. When the results of this process (profits in the form of dividends and earnings; the ability to lend and borrow) are *separated* from the process of their creation (business in the form of goods and services), the investor, nee manager, becomes the plaything of a collective unconsciousness; he finds himself at the beck and call of historical forces he cannot understand. He becomes merely the *passive* guardian of a hoard of loot that he did not create and which he knows not how to protect.

There are no "risk-free" investments. T-Bills are not always paid. Governments do default. The fact that the default is unusual is no protection to a pensioner. Markets do not necessarily follow history. Historical returns are past returns. To think that history will repeat is to *forget* that this is a hypothesis which treats the future as already determined. It is to *deny* that the creators of history have any freedom to create. There is no defense in saying that events are also random. Randomness in its pure *lack* of determination is the *same* as pure determination itself. In *each* case there is no freedom. Freedom requires the *ability* to determine freely without that determination being *already* determined. Randomness destroys that "ability" by taking away the control which free determination implies, just as determination destroys the "ability" by reducing the future to the past.

Successful Investment

Successful businesses are such because the *quality* of their actions makes them stand out from the average. Qualitative actions give them rewards in the form of quantitative values or wealth. These qualities, which *cannot* be reduced to quantity, are the true determiners of riskiness. A valid investment policy and the implementation of it should be based on knowledge, not on collective ignorance. Quantities should be seen in relation to quality. The relation is reducible to neither, but is the *result* of judgement. This judgement should not be suspended in obedience to the unknown forces of history or the precision of mathematics, but rather engaged in the process of free self-determination.

Successful investing lies in being partners with successful businesses and governments, in being owners of quality assets and lenders to reliable borrowers. Speculation occurs when decisions are not made on the basis of knowledge, when guesses become more important than considered judgement; in short, when the freedom of *thinking* is abandoned for the security of collective ignorance.

The market liquidation model of value is the plaything of the market. A *better model* is one based on judgements of value to which market value is relative rather than normative. To create such a model is to be issue specific. Risk is reduced not by diversification, but by participation in wealth creation, in so far as this wealth creation is known in its process and not just as a result.

On the basis of issue selection assets will be built up which represent asset classes based on quality and value, rather than on mathematical abstractions based on momentary collective value.

A portfolio built on the foundation of knowledge and judgement is much more likely to create the wealth necessary to pay future liabilities than one built on assumptions about historical aggregates. Active management should be less a matter of trying to approximate the market through rebalancing and adjusting assets than of selecting quality assets and setting absolute values for them, which will make it possible to take advantage of collective speculation based on the assumption that value is determined by momentary market liquidation prices.

Investment Policy

The proper procedure for developing investment policy, particularly a policy for pension funds, does not lie in separating the setting of the asset-mix from the implementation of selection and pricing. Proper policy can only be set upon an understanding of how wealth is created on a business by business basis. This understanding should lead to a policy which does not treat assets as quantities but as proxies for goods and services.

Investment policy set on this basis will encourage actuaries to abandon their preference for beginning with liabilities and working back to the present value of assets. Such a procedure fails to distinguish returns from cash flows. When returns and cash flows are distinguished, it can be seen that it is not necessary to begin with hypothetical liabilities. A better procedure is to begin with known cash flows. Once they are related to the known liabilities, any remaining liabilities can be discounted to a present value based on projected returns. Such a procedure would encourage investors or plan sponsors to attend closely to specific cash flows as results of the wealth creation of specific businesses or the borrowing capacity of specific governments, rather than as an historical abstraction in the form of a hypothetical return.

Investment policy could then become, as it properly is, a function of setting cash flow objectives which allow for specific payments of known liabilities and of projecting the need to pay for hypothetical liabilities. Asset-mix would then not be a creature of the market but of thoughtful individual judgement about specific securities. Once the *inherent rationality* of such investment policy is clearly understood, the possibility for *integrating* actuarial science, performance measurement, and portfolio management can become *actual*.
divinely sent.

HENRY GEORGE AND ALBERT SCHWEITZER: ECONOMIC JUSTICE AND REVERENCE FOR LIFE

Francis Peddle

I

Economic Justice and Reverence for Life Introduction

There is no evidence that Albert Schweitzer, the great twentieth century humanitarian, ethical philosopher, theologian, and musician, ever read any of the works of Henry George. Nevertheless there are some startling similarities between George's social and economic philosophy and the main tenets of Schweitzer's ethical thought as set down primarily in his *Philosophy of Civilization*. The following essay begins with a brief biographical comparison of the two. The practical lives of Schweitzer and George are closely intertwined with their formal doctrines and basic philosophical inclinations.

Throughout his life George had an unfailing and intense concern for suffering individuals and humanity. The dedication at the beginning of his well-known *Progress and Poverty* - to those who see the misery that springs from unequal wealth distribution and who strive for the attainment of a higher social state - sets a tone of compassion and caring which pervades the rest of the work. From an early age Schweitzer also felt a powerful concern for those who suffer and are weighed down with care.[1] This

[1] Albert Schweitzer, *Out of My Life and Thought*, tr. C.T. Campion (New York, Holt, 1944), pp.84-85.

deep identification with the rest of humanity is the fountain from which they drew on vast reserves of optimism and courage in the face of often insurmountable obstacles - George in his quest for social justice and the eradication of poverty, Schweitzer in becoming a medical doctor and singlehandedly establishing a hospital in equatorial Africa.

Before the age of thirty Schweitzer had obtained a considerable reputation in the fields of music, theology, and philosophy. Many years later his efforts as a physician in Africa made his name and hospital known throughout the world. His moral philosophy of reverence for life became an inspiration to millions and himself a living example of this ethical principle. With the publication of *Progress and Poverty* George also gained a worldwide reputation. The program of social reform he laid out became for many the ideal means of achieving economic justice. Intellectual accomplishment did not, however, inhibit either man from performing practical tasks. It is well known that George set the type for *Progress and Poverty*, and Schweitzer designed and hammered together many of the buildings which made up the hospital at Lambarene. In addition, both men paid unusual and dutiful attention to fact and empirical detail. George was a voracious reader and Schweitzer's scholarly abilities were amply displayed in a number of disciplines.

Anyone reading *Progress and Poverty* cannot help but be struck by its direct and well-proportioned eloquence. Schweitzer also tried to achieve a writing style that was simple and straightforward, so that it would reach as many people as possible. As a minister Schweitzer enjoyed nothing better than speaking to a congregation every Sunday about the elemental and basic order of life and the world. Similarly, George's biographers have described in detail his oratorical abilities and ever present desire to speak directly to the people.[2]

Another common trait of George and Schweitzer was their strongly held conviction about the necessity of rational thought. In this conviction they both strove against strong intellectual currents in the nineteenth and twentieth centuries. George saw a close relation between economic justice and a rational economics, or an economics in harmony with human nature and conducive to a progressive civilization, that is, an economics where the individual could reap the fruits of labour without being fettered by monopolistic control over publicly created wealth and what is given by nature. Schweitzer maintained that rationality was an integral part of his ethical thought and of any coherent philosophy of civilization.[3] Both were very much taken up with the Enlightenment enthusiasm for rational thought - George through his upholding of natural law and natural rights, Schweitzer by proclaiming that the Age of Reason was the highest point Western civilization had reached.[4] The widespread adoption of a rational perspective, be it economic or ethical, was an important aspect of their vision of a better humanity.

Both men also coupled their rationalism with profound religious conviction. George took religion to be a part of the process of civilization.[5] It is promotive of association and without social integration civilization is not

[2] See, Henry George, Jr., *The Life of Henry George* (New York, Robert Schalkenbach Foundation, 1960), and Agnes George de Mille, *Henry George: Citizen of the World* (Connecticut, Greenwood Press, 1972).

[3] Albert Schweitzer, *The Philosophy of Civilization*, tr. C.T. Campion (Tallahassee, University Presses of Florida, 1981 Reissue), pp.22, 80.

[4] *Id*., pp.2-3. See also, Michael Silagi, "Henry George and Europe", *The American Journal of Economics and Sociology*, Vol.45, No.3, July, 1986, pp.374-384. As a social philosopher, the Europeans saw George as synthesizing Jefferson, the Enlightenment and Mother Earth.

[5] *Progress and Poverty* (New York, Robert Schalkenbach Foundation, 1949), pp.512-513.

possible. Schweitzer understood the ethical philosophy of reverence for life as an elemental piety.[6] Neither conformed to institutional religion but both lived and worked in the fullest of Christian belief and devotion. And both made it quite clear that a thoughtful piety, which recognizes the freedom and dignity of every individual, must be an essential feature of a higher and more just civilization.

George and Schweitzer came to the decisive formulation of their philosophies at around the age of forty. In both the formulation is so simple, direct, and universal that it almost has the character of a mystical vision. For George, land monopoly is the great evil and its remedy lies in making land common property.[7] This is not a Marxist collectivism, which abolishes all private property, nor is it a proposal for the wholesale nationalization of land. It is a call for the appropriation of publicly created wealth by the community through the taxation of the economic rent of land. In Schweitzer's case the great and abiding evil is the destruction and limitation of life, and not just human life. His remedy lies in the teaching of reverence for life wherein it is recognized that life preservation and enhancement is a necessity of all thought and action.[8]

The remedies for evil put forth by George and Schweitzer complement one another. The poverty brought on by land monopoly and wealth inequities negates human life. It restricts the potential of the individual and causes society to deteriorate into immorality, vice, misery and insensitivity to others. The abolition of land monopoly is thus an act of reverence for life and this reverence ought to make everyone see the justice of such an abolition.

[6] *Out of My Life and Thought*, pp.235 *et seq.*

[7] *Progress and Poverty*, p.328.

[8] *The Philosophy of Civilization*, p.309. The phrase “Ehrfurcht vor dem Leben” came to Schweitzer while on a riverboat trip in Africa, see, *Out of My Life and Thought*, p.156.

Several of the basic metaphysical inclinations lying behind the philosophies of George and Schweitzer are as similar as some of the highlights of their achievements in life. What is crucial to these considerations is that both had a central vision, an absolute principle, from which all else flowed. Their thought, if understood properly, must be approached as the systematic exposition and development of a singular, unifying idea. With George, ethics, economics and religion are integral aspects of civilization and the advancement of the social organism.[9] Put in more modern terms, George envisaged an overarching synthesis of the social sciences and humanities which would facilitate improvement in the economic, moral, and intellectual well-being of humanity. Schweitzer also believed that the restoration of civilization out of its current decrepit condition depended upon the infusion of the absolute principle of reverence for life into all compartments of knowledge and intellectual endeavour, and into the most seemingly insignificant actions. The instrument whereby civilization is sustained and social conditions ameliorated is differently conceptualized by George and Schweitzer, but both had deep hope and optimism for the ability of the human spirit to improve socio-economic circumstances.

II

Foundations of Civilization in Ethics and Economics

The first part of Schweitzer's *Philosophy of Civilization*, entitled “The Decay and the Restoration of Civilization”, is a thoroughgoing

[9] George's socialism ought not to be misconstrued as an anti-individualistic collectivism, see, R.V. Andelson, “Neo-Georgism”, in *Critics of Henry George*, R.V. Andelson, ed. (London, Associated University Presses, 1979), pp.387 *et seq.* On the absoluteness of George's conception of law and natural right, see, Jack Schwartzmann, “Henry George and the Ethics of Economics”, *The American Journal of Economics and Sociology*, Vol.45, No.1, January, 1986, p.102. On natural rights, see, Henry George, *Social Problems* (New York, Lovell, 1883), Chapter X, “The Rights of Man”, pp.101-115.

critique of post-Enlightenment thought. In the Enlightenment there was a mutual cooperation between ethical ideals and reality. This cooperation broke down in the nineteenth century. Schweitzer primarily blames philosophy for the degeneration of culture because it gave up its role of guiding thought in general and ceased to ponder the elemental issues of humanity and civilization. Philosophy became overly concerned with practical matters in the nineteenth century and lost in idealism and spirituality what it gained in specialized expertise.[10] In losing its creative spirit, philosophy was no longer able to synthesize and "be the guide and guardian of the general reason".[11]

The external progress of civilization in the scientific and industrial revolutions is, in Schweitzer's view, an illusory progress. He defines civilization as "the effort to attain the perfecting of the human race and the actualization of progress of every sort in the circumstances of humanity and of the objective world".[12] Civilization is therefore a working together of the arrangements of human society in such a manner as will lead to the spiritual perfecting of individuals. The external development of society since the industrial revolution has, however, done more to thwart the self-realization of the individual than to advance it. Schweitzer notes the unfree economic position of the majority in modern society, the constant fatigue from overwork, the loss of intellectual and spiritual freedom, the alienation, and the overorganization of public life.[13] In a memorable phrase he says that "Our spiritual life is disorganized, for the over-organization of our external environment leads to the organization of our absence of thought."[14] The paradox which confronts Schweitzer is that the external progress of culture has led to a decline in thought, moral sensibility, and spiritual fortitude.

The first two books of George's *Progress and Poverty* are also a critique of the then prevalent theories of political economy. Critiques of social theories and predominant views on the nature of civilization are scattered, in their relevant setting, throughout the rest of the work. The fundamental paradox for which George seeks an explanation concerns the persistence of poverty, and the increase in want, amid steadily accumulating wealth in industrial societies. Furthermore, George believes that the discovery of the law which associates poverty with progress will explain the cause of industrial depressions.[15] After a statement about the basic economic problem of modern life, George proceeds to show how the accepted doctrine of wages and the Malthusian theory that population naturally tends to increase faster than subsistence cannot explain the paradox that wages tend to a minimum in spite of increases in productive power. Wages do not come from capital but are "the direct produce of labour".[16] Each labourer therefore adds to the true wages fund or to the common stock of wealth. Likewise, an increasing population, in George's view, can sustain greater wealth production through the increased efficiency of labour. George combines a pure labour theory of value with a belief that progress is essentially a function of human association and integration - the greater the association, the greater the social and economic advancement.[17]

There are a number of symmetries in the

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[10] *The Philosophy of Civilization*, p.6.

[11] *Id*., p.8.

[12] *Id*., p.xiii, see also, pp.58, 331.

[13] *Id*., pp.9-18.

[14] *Id*., p.19.

[15] *Progress and Poverty*, p.12.

[16] *Id*., p.153. This page succinctly summarizes the first two Books of *Progress and Poverty*.

[17] *Id*., p.508.

positions of George and Schweitzer on the nature of civilization. First, and most important, is that both view society and culture as a unity and combination of ethics and economics. For Schweitzer, civilization is "material and spiritual progress on the part of individuals as of the mass" and George sees economic law and moral law as essentially one.[18]

Secondly, both see progress or change as crucial to the definition of civilization. George declares that a civilization like ours cannot stand still, it must either advance or decline.[19]

Thirdly, though both Schweitzer and George are incisive and powerful critics of prevailing modern conditions and ideas, neither is content with merely negative criticism. Both offer remedies and alternate philosophies for the establishment of civilization on a more secure and enlightened foundation.

Fourthly, both see civilization as sustained only by free individuals. George takes equality, justice and freedom as being synonymous.[20] Inequality is a lack of freedom and, of course, an injustice. The attainment of freedom from the world, or from external determination, is an essential part of Schweitzer's ethical doctrine.[21] The tragedy of modern economic life is that it destroys independence of thought and spiritual freedom, which are absolutely necessary to individual self-realization.

Fifthly, George and Schweitzer see the maintenance and preservation of life as the most fundamental absolute in ethical and economic thought.[22] Schweitzer's doctrine of reverence for life has its counterpart in George's universal principle of the equal right to live, which necessarily entails an equal right to share in nature and have equal access to what is given by nature.

Finally, George and Schweitzer view integration as a necessary and ineliminable aspect of society. Association, according to George, frees up mental power as well as enhancing economic wealth.[23] Wars and conflicts, for instance, which cause societies and people to disassociate, obviously make civilization degenerate. Schweitzer also understands society as necessarily integrative. When a culture does not have a theory of the universe, or when it does not interconnect thought and action, then its decline is inevitable.

III

The Concept of Progress

Since progress constitutes an essential part of George's and Schweitzer's idea of civilization, it is appropriate here to dwell on this concept in more detail. The conditions of the law of progress, according to George, are association and equality or freedom.[24] The driving force of this progress is the mental power devoted to the extension of knowledge, the improvement of production, and the

[18] *The Philosophy of Civilization*, pp.21-22; *Progress and Poverty*, p.560.

[19] *Progress and Poverty*, p.527.

[20] *Id.*, p.508.

[21] *The Philosophy of Civilization*, p.283.

[22] George views the equal right to live as a universal perception of the human mind, see, *The Land Question* in *Works*, Vol.III, (New York, AMS Press, 1906), pp.35-36. Since everyone has an equal right to live, it follows that everyone has an equal right to share in the bounty of nature. The right to live springs from the fact of existence, and it gives rise to the irrefutable and indefeasible right to share equally in the material world or what George calls the "passive factor" in production.

[23] *Progress and Poverty*, p.513, see also, the sections on cooperation in *Science of Political Economy*, *Works*, Vol.VII, (New York, AMS Press, 1906), Bk.III, chaps.IX-X, pp. 371-396.

[24] *Progress and Poverty*, p.529.

advancement of social conditions.[25] The law of social or human progress is the moral law which promotes equality and justice. Neither of these laws are inviolable. Civilizations can and do decline. George is not a social Darwinist who relies on evolutionary theory to explain social progress.[26] The differences in civilizations and communities cannot be ascribed to innate biological differentiations in human beings. George concludes, after an empirical analysis of this issue, that: "There is, it seems to me, a common standard and natural symmetry of mind as there is of body, toward which all deviations tend to return".[27]

Schweitzer also completely rejects evolutionary theory as a basis for conceptualizing social progress and moral advancement. Indeed, he goes so far as to say that : "ethics cease to be ethics in proportion as they are brought into harmony with natural happenings".[28] Schweitzer does not mean by this that there is no harmony between human thought and the natural laws embedded in the world around us. Rather, he is distinguishing ethics from simple natural occurrence. Ethics ought to develop its altruism or solidarity with all life on the basis of free reflection. The "natural symmetry of mind" of which George speaks is, with Schweitzer, the universality of rational thought which must accompany the commonality of all ethical dispositions in reverence for life.[29] Like George, Schweitzer does not see a necessary progress in Western civilization. In fact, given the current disparities between universal economic well-being, or the ideal of a just society, and the reality of mass poverty, social misery, and ethical turpitude, it is obvious that the industrial and technological advances of modern times have benefited a relative few and educated even fewer in the art of moral living. Both George and Schweitzer dared in their time to question the prevailing optimism and belief in the inevitable advance of civilization. If there is to be social and moral progress, then it must be predicated upon fundamental changes in moral and economic thinking.

George and Schweitzer therefore see progress, not as something naturally, historically or objectively pre-ordained, but as wholly the creation of human endeavour. If there is not a renaissance in human spirituality, or if we fail to correct vast inequities in the production and distribution of wealth, then there is little chance for the advancement of civilization as a whole. There is a wonderfully intuitive dialectic in George's observation "that the obstacles which finally bring progress to a halt are raised by the course of progress".[30] Greater integration, which is a condition of progress, leads to a greater unequal distribution of wealth and power, in the absence of the public collection of economic rent, and this eventually destroys socio-economic integration and civilization.[31]

This increase in unequal wealth distribution is presently advancing, not only between the developed countries and the Third World, but also between the rich and poor within most countries. It remains to be seen what effect

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[25] *Id.*, p.507; see also, *Science of Political Economy*, *op. cit*. Bk.III on the spiritual basis of "production", which George defines as resulting "from human exertion upon external nature, and consists in the changing in place, condition, form or combination of natural materials or objects so as to fit them or more nearly fit them for the satisfaction of human desires", p.327.

[26] *Progress and Poverty*, pp.489 *et seq.*

[27] *Id.*, p.503.

[28] *The Philosophy of Civilization*, p.225.

[29] See, for instance, *Indian Thought and Its Development*, tr. C.E.B. Russell (Massachusetts, Smith, 1977 Reissue), p.vii, on the "two great fundamental problems common to all thought". Schweitzer sees three kinds of progress in the development of all civilizations: in knowledge and power, in social organization, and in spirituality, *The Philosophy of Civilization*, p.332. George sees "growing", "adapting" and "exchange" as the three modes of progress in the production of wealth, see *Science of Political Economy*, *op.cit.*, Bk.III, chap.II.

[30] *Progress and Poverty*, p.488.

[31] *Id.*, p.528.

these inequalities in wealth distribution will have on the global economy.[32] George was of the view that the total collection of community-created land values for the public treasury would forestall economic instability in industrial countries. His vision was of a uniform and stable rate of wealth creation in a continually progressing society.

Likewise, Schweitzer hoped to reverse the socio-historical spectacle of continuous moral decadence and inhumanity interspersed with the appearance of the occasional great ethical personality or culturally enlightened period. Both men seek to arrest, or at least mitigate, the reasons for the relentless dissolution of civilizations. This is the raison d'etre of their focus on progress in civilization and of their belief, and their hope, that in the future individuals and societies will conduct themselves, and arrange their affairs, in such a manner as to avoid barbarism and inhumanity.

IV

Economic and Ethical Individualism

One of the most pervasive themes in Schweitzer's *Philosophy of Civilization* is the overriding importance of the individual in the restoration of civilization. He explicitly rejects communism, the ethics of society, institutionalism, or any form of collectivism, as the instrument whereby progress and moral enlightenment can be secured. In Schweitzer's view all institutions and organizations have only a relative significance. He states:[33]

> The only conceivable way of bringing about a reconstruction of our world on new lines is first of all to become new men ourselves under the old circumstances, and then as a society in a new frame of mind so to smooth out the opposition between nations that a condition of true civilization may again become possible. Everything else is more or less wasted labour, because we are thereby building not on the spirit, but on what is merely external.

In reverence for life the ethics of self-perfecting and the ethics of altruism are combined in the individual. The individual has supra-personal as well as personal responsibilities.[34] It is not the spirit of the collective body which creates the ethical disposition in the individual, according to Schweitzer, but the ethical individual who, through supra-personal responsibilities, contributes to the general ethical disposition of society. It is because ethics have been left to society that civilization has collapsed.[35] The endless rules and regulations which have today steadily accumulated under the rubrics of "applied ethics" and "professional ethics" merely disguise the ethical vacuity of society. The proliferation of laws has been historically an indication of the underlying lawlessness of a society. It is a symptom of the absence of an unifying and animating moral principle. The restoration of civilization is only possible, says Schweitzer, insofar as individuals assert themselves in society as free ethical personalities.

George's economic reforms are essentially directed towards a freeing of the individual to enjoy the fruits of labour. The individual has an absolute right to the usufruct of his or her labour. Any violation of this right is really an infringement of property rights.[36] All individu

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[32] See, Fred Harrison, *The Power in the Land* (London, Shephard-Walwyn, 1983), especially chap. vi "18-year Cycles: the UK Evidence", pp.72-90.

[33] *The Philosophy of Civilization*, p.36.

[34] *Id.*, p.323.

[35] *Id.*, p.328.

[36] Today the phrase "property rights" has been more or less supplanted by "economic rights". There is, however, a fundamental difference between the two. Economic rights are usually conceptualized as something given by the state - to be guaranteed by the

als have an equal claim to the gifts of Nature and the Creator in George's philosophy. Land, labour and capital, the three primary elements in wealth creation, are taxed disproportionately in most societies. Labour bears the heaviest burden, capital next, and land the least. George understands capital as something which results from the union of land or what is given by nature, which is the passive factor in production, and labour, which is the active factor in production.[37] He believes that a single land value tax will restrict land monopoly and shift the burden of taxation off individually created wealth and unto that created by the community. The attainment of economic individualism is thus the cornerstone of George's philosophy. Like Schweitzer, he believes that a true attainment of this individualism will have significant effects on social life and organization.[38] The freedom of the individual is thus intimately bound up with the retention of the usufruct of individual labour. Monopolization of natural opportunities enslaves individuals as does the taxation by the state of the fruits of individual labour through excessive income and sales taxes because such taxation deprives individuals of the freedom not only to satisfy human needs through the least exertion but also to realize the full potential of their spiritual and moral life.[39] George concludes *Progress and Poverty* on the question of the interrelation of the individual and society. He confessed that he found it impossible to think of one without the other.[40]

At the end of *The Philosophy of Civilization* Schweitzer approaches the great issue of social and institutional life from the standpoint of the ethical individualism of reverence for life. George, on the other hand, concludes *Progress and Poverty* by considering the individual from the standpoint of a reconstitution of socio-economic life. The interrelation of individual and society is complex in both writers. The direction of their arguments and their points of emphasis are different. George is of the view that society can be changed fundamentally. Poverty and suffering are not the creation of natural laws but the pernicious product of flaws in the structure of economic arrangements - the primary one being the private monopolization of the gifts of Nature. Progress can only therefore be achieved through socio-economic change. Social structures are only sustainable by justice.

Schweitzer, on the other hand, believes that progress is only obtainable through a constitutional change in the individual. This heightened ethical spirituality will then change human society. The role of the individual is pivotal in both their arguments. George seeks to unfetter an unchanging human nature, that is, to harmonize economic life with the universal disposition of the individual in order to achieve economic and social justice. Schweitzer believes that true ethics and justice will only be achieved in a reconstituted individuality. Reform of society through the recognition of individual and communal rights ameliorates the brutishness of the individual condition, according to George. The ethical understanding and commitment of the individual, in Schweitzer's view, ameliorates the inhumanity of society. In both authors, however, there is a sense of necessity and freedom interacting when it comes to the

ethics of society. So, for example, people have an "economic right" to adequate and affordable housing and this is to be provided by government, or there exists an economic right to a guaranteed annual income. "Property rights", on the other hand, flow exclusively from the individual and are integral to an individual's self-realization and self-perfecting, and thus to freedom. Such rights cannot be given or granted by the state, but are purely a function of individual labour.

[37] *Progress and Poverty*, p.39, see also, p.48.

[38] *Id.*, pp.454-472.

[39] George states that the fundamental law of political economy is "that men seek to satisfy their desires with the least exertion", *Science of Political Economy*, *op.cit.*, Bk.I, chap.xii, pp.86-91.

[40] *Id.*, p.555.

explication of their concepts of individuality. Elemental conditions and natural laws must be wilfully and freely adhered to and shaped in order to harmonize individual choice with the order of existence.

There is another important element in the economic and ethical individualism of George and Schweitzer, and that is the role of the will. The will-to-live is the fundamental and ineliminable force in Schweitzer's philosophy that pervades all existence. He conceives of all individuals as participating in an infinite will-to-live. "Reverence for life means to be in the grasp of the infinite, inexplicable forward-urging Will in which all Being is grounded".[41] Schweitzer declared in his autobiography that his knowledge made him a pessimist, but that his willing and hoping gave him optimism.[42] He saw in the will-to-live an instinctive reverence for life that thinking (Denken) could raise to the most noble spirituality.

George also saw an intimate connection between conscious will and justice or rights, oughts and duties. He viewed the will as the decisive element in social progress:[43]

> And, further than this, when we see that social development is governed neither by a Special Providence nor by a merciless fate, but by law, at once unchangeable and beneficent; when we see that the human will is the great factor, and that taking man in the aggregate their condition is as they make it; when we see that economic law and moral law are essentially one, and that the truth which the intellect grasps after toilsome effort is but that which the moral sense reaches by quick intuition, a flood of light breaks in upon the problem of individual life.

Simply understanding the problem and recognizing the truth is not sufficient for social reform. What ought to be done must be conjoined with the will to do it. George's qualified optimism lies as much in the power of the will as Schweitzer's. Insofar as circumstances and wealth inequities stifle and inhibit that will - turning individuals into unthinking, pathological, exploited citizens - then it is inevitable that society will slip further into barbarism and moral depravity.

Schweitzer, like George, was deeply suspicious of government extending beyond its natural boundaries. Unnecessary restrictions on the freedom of the individual are the bane of modern culture. George also held that an increase in the complexity and expense of government divorces it from the interests and will of the people.[44] Government is also incapable of eradicating poverty as long as land is monopolized. Indeed, through tax policies which weigh heavy on production, government contributes to the wealth inequities and injustices that are its stated objective to eradicate. This paradox creates large-scale dysfunctions in the socio-economic arrangements of civil society.

Another important parallel between the ethical individualism of Schweitzer and the economic individualism of George is their condemnation of the deleterious effects of modern nationalism. Schweitzer sees nationalism as an unnatural development that is indicative of the decadence of modern civilization.[45] Indeed, nationalism makes civilization *per se* impossible because nation states, unlike civilization, are not grounded in the absolute principle of the moral, which is reverence for life. George's transnationalism takes the form of an attack on protectionism in the commerce of nations. In *Protection or Free Trade* he demonstrates how the taxation of land values and the issue of free trade between all nations are fundamentally

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[41] *The Philosophy of Civilization*, p.283.

[42] *Out of My Life and Thought*, p.240.

[43] *Progress and Poverty*, p.560.

[44] *Id*., p.303.

[45] *The Philosophy of Civilization*, pp.29-34.

interconnnected. Customs barriers and other trade obstacles grant monopolies to certain groups of producers in any nation state at the expense of all other citizens. Tariffs and protectionist measures bear heavily on the production and distribution of wealth and are therefore another way of the constricting the freedom of the individual. Only when national protectionist barriers directed towards other nations, and taxes on individual labour within nations, are done away with will the humanity and moral enlightenment of all individuals be enhanced. Free trade, on its own, cannot bring economic prosperity and social amelioration. It is only an aspect of the process towards the greater self-utilization of individual effort.

The denial of equal access to land and the gifts of Nature was also seen by Schweitzer as the most flagrant violation of historical and human rights.[46] The unnatural competition between national civilizations was looked upon by him as a significant contributor to the decline of culture. Without basic rights, in economic and ethical terms, no amount of abstract political, legal and civic rights will alleviate the human condition and contribute to the advancement of civilization. Land monopoly, nationalism, protectionism, uncontrolled government organization, poverty and unbridled wealth concentration distend the human community, negate the freedom and potential of the individual, and ultimately contribute to the decline of civilization. Real progress lies in the ethical individualism of reverence for life and in the economic justice of George's maximization of production and fair distribution of wealth in the principle of allowing each individual absolute right to the fruits of labour and permitting all individuals equal opportunity to the gifts of Nature. If the individual remains poor thereafter, it will be a matter of indolence or choice, but not an involuntary state dictated by an unjust society.

[46] "The Problem of Peace", Nobel Lecture, November 4, 1954 in *Peace 1951 - 1970, Nobel Lectures*, Vol.III, Frederick W. Haberman, ed. (New York, Elsevier Publishing, 1972), pp.46-48.

V

Conclusion

There are many symmetries in the life work of George and Schweitzer. Comparative studies of their philosophies are important for the development of an integrative speculative philosophy that harmonizes socio-economic and ethical life - a harmonization in which theory guides and shapes practice and practice is the concrete historical life of our theoretical being. Schweitzer's *Philosophy of Civilization*, an unfinished work, is deficient when it comes to the detailed application of the ethical individualism of reverence for life to society, to the moral dilemmas of our economic institutions, and to the conflicts between the individual and the community. He merely says, for instance, that true ethics regard wealth "as the property of society left in the sovereign control of the individual", without further specifying what this means.[47] Schweitzer does not give us a positive theory of wealth production and distribution, though he does recognize acutely how economic conditions can negate and deform life.

George, on the other hand, tends to idealize the changes that will be wrought in individuals if poverty is alleviated and the distribution of wealth equalized. His socio-economic reforms and theory of economic individualism, which are situated to a degree in the tradition of classical economics, are eloquently articulated and developed. He does not, however, have a deep theory of ethical individualism. George relies too heavily on the restructuring and amelioration of economic and social conditions to enhance and enlighten the ethics of the individual personality. Since progress in civilization is a matter of individual self-perfecting *and* advancement towards just social and economic arrangements, Schweitzer and George complement each other powerfully in the speculative quest for the harmonization

[47] *The Philosophy of Civilization*, p.320.

and integration of thought and deeds.

In an age and thought-world of social engineering, piecemeal solutions, non-idealistic pragmatism, political expediency and persistent inhumanity, Henry George and Albert Schweitzer put forth comprehensive principles for the reform of civilization. Each held that there were absolute and inviolable aspects to human nature and the order of existence. Each sought to state simply and resolutely how we ought to structure and live within our economic, social and humanitarian institutions. They saw our present civilization as going into decline unless certain economic and ethical alternatives were adopted. Each, though pessimistic about the past, held out hope for a better future. And both believed that an overarching philosophy, which integrates and harmonizes what can be known and understood and which provides the moral guide for action and for inquiry into the truth, is possible and attainable.

The questioning of the possibility of such a philosophy is the primary obstacle in contemporary intellectual life to achieving such a *positive* orientation towards nature and society. The negative analytical and empirical philosophies, relativistic ethics and counter-absolutistic thought-orientations which currently pervade and distort our institutions of higher learning now need to be contextualized and supplanted by the philosophy that elaborates itself out of first principles. Schweitzer declared that: “For individuals as for the community, life without a theory of things is a pathological disturbance of the higher capacity for self-direction”.[48]

A theory of individual life is as necessary as one for society - the two are inseparable and irreducible. Economic injustice is a violation of reverence for life and ethics cannot be complete without a comprehensive theory of wealth production and distribution which safeguards the freedom, integrity and initiative of all individuals in the promotion of a higher civilized state. Economic and social justice can only be attained in the ethical absolute of reverence for life and *all* life can only be reverentially fulfilled when there is complete participation in this justice. institutions.

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[48] *Id*., p.53.

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